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(Tel: 01443 864281 Email: [hughesj@caerphilly.gov.uk](mailto:hughesj@caerphilly.gov.uk))

**Date: 8th January 2020**

Dear Sir/Madam,

A meeting of the **Policy and Resources Scrutiny Committee** will be held in the **Sirhowy Room - Penallta House** on **Tuesday, 14th January, 2020 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, and a simultaneous translation will be provided if requested.

All Committee meetings are open to the Press and Public, observers and participants are asked to conduct themselves with respect and consideration for others. Please note that failure to do so will result in you being asked to leave the meetings and you may be escorted from the premises.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Chrissy'.

**Christina Harrhy**  
INTERIM CHIEF EXECUTIVE

## AGENDA

	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.	

A greener place Man gwyrddach

Correspondence may be in any language or format | Gallwch ohebu mewn unrhyw iaith neu fformat



To approve and sign the following minutes: -

- |   |  |         |
|---|--|---------|
| 3 | Policy and Resources Scrutiny Committee held on 12th November 2019.                                  | 1 - 8   |
| 4 | Special Policy and Resources Scrutiny Committee held on 11th December 2019.                          | 9 - 14  |
| 5 | Consideration of any matter referred to this Committee in accordance with the call-in procedure.     |         |
| 6 | Policy and Resources Scrutiny Committee Forward Work Programme.                                      | 15 - 22 |
| 7 | To receive and consider the following Cabinet Reports*: -  |         |
|   | 1. Draft Budget Proposals for 2020/21 – 13th November 2019;  |         |
|   | 2. #Team Caerphilly – Better Together Transformation Strategy – 6 Month Update – 27th November 2019; |         |
|   | 3. Council Tax Base 2020-2021 – 11th December 2019.  |         |

*\*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 Monday 13th January 2020.*

To receive and consider the following Scrutiny reports:-

- |    |  |         |
|----|--|---------|
| 8  | Update on Reserves.  | 23 - 32 |
| 9  | Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2020/21. | 33 - 68 |
| 10 | Consultation and Engagement Framework 2020-2025.   | 69 - 90 |

**Circulation:**

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

And Appropriate Officers

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## **POLICY AND RESOURCES SCRUTINY COMMITTEE**

**MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, YSTRAD MYNACH ON  
TUESDAY, 12TH NOVEMBER 2019 AT 5.30 P.M.**

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PRESENT:

Councillor G. Kirby – Vice Chair - Presiding

Councillors:

M. Adams, Mrs E. M. Aldworth, L. Harding, C. P. Mann, B. Miles, J. Ridgewell, Mrs M. Sargent, R. Saralis, J. Taylor, L. Whittle

Cabinet Members:

C. Gordon (Corporate Services)

Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services and Acting S151 Officer), L. Donovan (Head of People Services), C. Forbes-Thompson (Scrutiny Manager), S. Hughes (Committee Services Officer)

### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors K. Etheridge, Mrs C. Forehead, Miss E. Forehead, G. Johnston, J. Pritchard (Chair) and Cabinet Member Mrs B. A. Jones (Interim Leader of Council)

### **2. DECLARATIONS OF INTEREST**

During the course of the meeting Councillor C. Mann declared an interest in Agenda Item number 9. Details are minuted with the respective item.

### **3. MINUTES – 1ST OCTOBER 2019**

RESOLVED that the minutes of the Policy and Resources Scrutiny Committee held on 1st October 2019 (minute nos. 1 – 6) 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**

Cath Forbes-Thompson (Scrutiny Manager) presented the report, which outlined details of the Policy and Resources Scrutiny Committee Forward Work Programme (FWP) for the period November 2019 to April 2020, and included all reports that were identified at the Scrutiny Committee meeting on 1st October 2019.

Members considered the Forward Work Programme and agreed that Caerphilly County Borough Council's Strategic Equality Plan 2020-2024 scheduled for 14th January 2020 be moved to 25th February 2020. It was also agreed that Consultation and Engagement Framework be added to the FWP for 14th January 2020.

Subject to the foregoing amendments, it was unanimously agreed 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. SICKNESS ABSENCE WITHIN THE COUNCIL**

With the agreement of the Chair and approval of the Scrutiny Committee this item was brought forward on the Agenda.

The Cabinet Member for Corporate Services presented the report which provided Members with an update of the position with regard to sickness absence within the Council. The report also provided Members with an update on the steps that have been taken and the progress made in reducing the Council's level of sickness absence over the last financial year and the actions being taken to support a continued improvement. To support this, the report provided an overview of levels of absence within the Council for the previous 2 years. Members of the Policy and Resources Scrutiny Committee were asked to note the sickness absence information contained within the report and the improvements made in 2018/19.

Members were informed that in 2018/19 the Council ranked 16<sup>th</sup> in Wales for the number of days lost per full-time equivalent (FTE) Local Authority employee due to sickness absence including schools. Performance was 11.3 days per FTE, a move up of 4 positions from 2017/18, when CCBC was 20<sup>th</sup> in Wales with 12.3 days. Both short-term and long-term sickness in the Council has improved over the last year. Sickness has decreased from 23,975 days lost in 2017/18 to 21,609 in 2018/19, a difference of 2,366 days. Long-term sickness also saw a decrease from 54,142 to 49,237 days lost between 2017/18 and 2018/19, a difference of 4,905 days.

Members were referred to tables in the report which presented the percentage absence levels for 2017/18 and 2018/19 for the Council and each Directorate and also the percentage number of employees per Directorate that have reported sick for the number of days stated for 2017/18 and 2018/19. Members noted that during both financial years almost 50% of employees did not report absent due to sickness and over 70% of employees reported absent between 0 and 5 days. Members were also referred to the table in the report which outlined the top ten reasons for absence across the Authority, as generalised categories, for the periods April 2017 to March 2018 and April 2018 to March 2019 and noted that the rank order of reasons remained fairly consistent across the 2 years.

Members were informed that sickness absence will continue to be monitored by the Corporate Management Team, HR and the Cabinet Member for Corporate Services with the aim of reducing sickness absence levels.

Members were pleased to note the reduction in sickness absence levels for 2018/19 for the Council and each Directorate. A question was raised as to whether the percentage long-term absence figures are being impacted on by early retirement due to ill health. Officers confirmed early retirement does not have a significant impact on sickness absence.

In response to a Members query, an Officer reported that the Council's Managing Sickness Absence Procedure provides a structured framework to allow Managers to effectively manage sickness absence. The purpose of the procedure is to maximise employee attendance at work, support employees in returning to work and having a clear and agreed process for managing the sickness absence of all the Council's employees. Within People Services, there is a dedicated Managing Attendance Team to support Managers to manage absence effectively and consistently across the Authority. To support the management of sickness absence, the Council has its own Occupational Health Unit, with Occupational Health Physician, Physiotherapist and Nurse expertise. The Council also provides a confidential counselling service via Care First that can be accessed by all employees. Officers clarified that it is the responsibility of every employee to make a decision as to whether or not they are fit for work; this will also depend on the setting they are working in. A Wellbeing Strategy is being developed with a view to supporting employees to be well and at work. This will include what employees can do to support their own health and attendance at work. A digital 'Health Wall' is also in the process of being developed featuring links to organisations that provide expert information and advice for a number of health related issues.

A discussion took place regarding the top ten reasons for absence across the Authority, as generalised categories, for the periods April 2017 to March 2018 and April 2018 to March 2019. In response to a Members query on the accuracy of differentiation between the highest ranking reasons for absence and work related stress, Officers clarified that the figures are based on what the employee initially reports to HR or what is recorded on a sick note. The Head of People Services agreed to circulate more detailed percentage information on the ranking, following the meeting.

Members referred to the Council's ranking in Wales for the number of days lost per full-time equivalent Local Authority employee due to sickness absence and requested percentage information across the 22 authorities. The Head of People Services agreed to circulate this information to Committee Members following the meeting. Members noted the improvement in both short-term and long-term sickness in the Council over the last year. In relation to the number of days lost per full-time equivalent Local Authority employee, Members asked what decrease in days lost would be required for the Council to be positioned within the top half of the ranking for Wales. The Head of People Services confirmed that she did not have this data at hand but would circulate this information in due course.

Members sought clarification and further details on the proactive and preventative measures that are being looked at by HR and Health and Safety to address the top reported reasons for absence. Officers explained that the Council's Wellbeing Group had been re-established to

provide focus on ways in which the Council can provide support to employees to be fit and well and attend work, including what they can do as individuals to support themselves. Officers referred to Musculo-skeletal problems and how the Physiotherapist can support employees who deal with moving and handling. A Member requested information on staffing areas and the Officer confirmed that this could be provided outside the meeting. It was noted that People Services are developing an employee reward and recognition scheme that will acknowledge employees who have not reported a sickness absence. In response to a Members query it was confirmed that Trade Unions are supportive of the steps that have been taken to reduce the levels of sickness absence. The Trade Unions are also part of the Wellbeing Group where they will have the opportunity to bring forward suggestions.

A Member drew particular attention to the report detailing the work being actioned to support the continued improvement in sickness absence levels and requested a report that details the financial implications. Officers explained that this information is difficult to capture but would ensure that percentage figures for on costs are detailed in future reports.

The Scrutiny Committee acknowledged the hard work undertaken to reduce the Council's level of sickness. In conclusion Members agreed that the improved focus on managing sickness absence appears to have been beneficial as numbers have reduced. However, as new policies and procedures are being introduced their impact on sickness absence must be monitored in order to maintain this downward trend.

Following consideration of the report, the Scrutiny Committee noted the sickness absence information contained within the report and the improvements made in 2018/19.

## **8. #TEAM CAERPHILLY – BETTER TOGETHER TRANSFORMATION STRATEGY – 6-MONTH UPDATE**

The Interim Head of Business Improvement Services and Acting S151 Officer presented the report which updated Members of the Committee on progress under the #Team Caerphilly – Better Together Transformation Strategy which was approved by Cabinet on 12th June 2019. As agreed a six-monthly update is provided to Members for comment prior to its presentation to Cabinet. Members were asked to note the content of the report and make any comment on the progress against the strategy.

Members were informed that much of the focus during the early months has been on firming up governance arrangements and recruiting to the three fixed-term Transformation Manager posts. The #Team Caerphilly Programme Board has been established and is now meeting on a monthly basis and a new Programme Co-ordination Group has also been created to provide day-to-day oversight and to support the Programme Board. The Transformation Manager (Innovation) and the Transformation Manager (Commercial Investment) were appointed and took up their posts on the 1st October 2019 for a fixed-term period of 2 years. The Principal Officer (Workforce Development) has also recently been appointed for a fixed-term period of 2 years with a start date to be confirmed. Communication and engagement capacity has been added to the overall Transformation Team with a Senior Communications Officer seconded to support the staff, manager and community engagement strands of the strategy.

There are 26 action areas in the strategic action plan for the Transformation Programme and an update on progress was provided in Section 5.4 of the report. Members were advised that there has been some slippage in the programme, primarily due to the time taken to make the key appointments required to drive forward the programme at pace.

Members were advised that significant progress has been made in the five months since the #Team Caerphilly – Better Together was adopted by Cabinet, however, this is the start of the transformation journey for the local authority. Activity will continue under the Strategic Action Plan and Place Shaping Programmes and other work streams will be generated as work progresses. Performance measures are being developed alongside the work streams and

updates will continue to be provided to Committee and Cabinet on a 6 monthly basis.

Members noted that the report had been grouped into three main categories consisting of Governance, Appointments and the Strategic Action Plan. Members were advised of the progress under these headings and provided with further detail of the staffing appointments. The Scrutiny Committee expressed the wish for the new managers to attend a future meeting and it was agreed this would be appropriate when considering the Commercial and Investment Strategy in January 2020.

Members sought clarification and further detail on the Strategic Action Plan in respect of creating the right organisational culture, encouraging and supporting innovation and embracing new technologies. The Scrutiny Committee was assured that various methods would be utilised to engage with staff. Members were advised that the Interim Chief Executive has already held face to face meetings with groups of staff to outline the strategy and it is also intended to have a formal launch in the New Year and there would be further staff roadshows. Along with the Intranet, written documents will be provided for distribution to those who cannot access digitally. It is also intended to include detail of the strategy and the new approach as part of the induction programme for new staff. Members were also advised that all staff will be encouraged to put forward suggestions for innovation and any viable ideas will be considered by a Commercial Panel. In addition it is hoped that the opportunity to put forward ideas could be extended to residents going forward.

The Scrutiny Committee asked for examples of how CCBC will embrace new technologies and were advised that investment in Abavus and Thoughtonomy has already been made and more ideas are being generated. The aim of investing in these new platforms is to open up opportunities to generate efficiencies in processes, free up staff to undertake alternative work and to deliver savings where possible. Members asked for further detail in respect of the Commercial Approach, and were advised that the strategy is underpinned with the aim of having a social heart with a commercial head. The intent is to identify opportunities to generate income by perhaps offering services to other local authorities, members of the public where it is appropriate to do so, and in some circumstances the commercial sector. Additional income raised through commercial activities will be re-invested in services to help them remain resilient, i.e. 'Profit for Purpose'.

Members sought clarification with regard to the Community Hubs and were advised this was at a very early stage but further detail would be circulated to the Scrutiny Committee. It was commented that the report made reference to supporting a modern and sustainable transport strategy but in order to achieve this there is a need to ensure that local bus services continue to operate as they enable residents, who have no alternative, to travel to work.

The Scrutiny Committee asked how the performance of the strategy will be measured and were advised that performance measures are being developed by the Programme Co-ordination Group.

Following consideration of the report and having noted its contents it was moved and seconded that the following recommendation be referred to Cabinet for approval. By a show of hands, this was unanimously agreed.

RECOMMENDED to Cabinet:-

- (i) That Members note the comments of the Scrutiny Committee and the content of the report and make any comment on the progress against the strategy.

**9. TREASURY MANAGEMENT & CAPITAL FINANCING PRUDENTIAL INDICATORS QUARTER 1 AND QUARTER 2 MONITORING REPORT (1ST APRIL 2019 TO 30TH SEPTEMBER 2019)**

Councillor C. Mann declared a personal interest only in this item, in that he has savings in Principality Building Society. As such there was no requirement for him to leave the meeting and he could take full part in the debate.

The Interim Head of Business Improvement Services and Acting S151 Officer presented the report which provided Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for the period 1st April 2019 to 20th September 2019. The report also reviewed the Treasury Management Strategy for 2019/20 as set out in the Annual Investment Strategy and Capital Financing Prudential Indicators Report. The Scrutiny Committee was asked to note the content of the report.

Members were advised that in accordance with legislative requirements, Welsh Government guidance and Codes of Practice, the Council is required to approve a Treasury Management Strategy on an annual basis. The current Strategy was approved by Council on the 21st February 2019 and in summary this set out details of interest rate prospects in both the short-term and longer-term; the borrowing strategy to fund the General Fund and Housing Revenue Account capital programmes; details of the Annual Investment Strategy; the Minimum Revenue Provision policy; and the associated prudential indicators for the three financial years 2019/20 to 2021/22.

Officers outlined a number of headings in the report for Members attention. Members were advised that the current policy of internal borrowing is not sustainable in the long-term, but where prudent the policy of internal borrowing would be utilised. It was noted that a £23m 20 year PWLB loan was raised to fund the WHQS capital programme. There have been no opportunities for debt rescheduling during the period covered by the report. The total investments held as at 30th September 2019 was £111.6m, and had an average rate of return equating to 1.03% which is a significant improvement over placing deposits with the Debt Management Office (DMO) who continue to pay a rate of 0.50%. The Authority is currently operating within the Prudential Indicators approved by Council in February 2019.

During the course of debate, a Member raised a number of queries in relation to the borrowing activity and the use of reserves. Officers reminded Members that a commitment was given to review reserve balances again as part of the process of preparing the annual Use of Reserves report which is scheduled on the Policy and Resources Forward Work Programme for the 14th January 2020.

Reference was made to the portfolio of investments held as at 30th September 2019 and during the course of the ensuing debate the requirement for Members to declare an interest with regards to their personal investments was discussed. In response to a request for a list of organisations the Council is investing in, Officers will liaise with Treasury Management to compile a list for a future discussion. Members questioned the impact Brexit will have on investments and were advised that Treasury Management was keeping this under review and mitigating any potential risks. A Brexit Working Group is monitoring the position and we are also taking advice from our Treasury Management Advisors.

Members were informed that the Treasury Management Strategy report for the next financial year is due to come to Scrutiny Committee early next year.

Following consideration of the report, the Scrutiny Committee noted the content.



The meeting closed at 6.45 p.m.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 14th January 2020, they were signed by the Chair.

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CHAIR

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## **SPECIAL POLICY AND RESOURCES SCRUTINY COMMITTEE**

**MINUTES OF THE SPECIAL MEETING HELD AT PENALLTA HOUSE, YSTRAD  
MYNACH ON WEDNESDAY, 11TH DECEMBER 2019 AT 5.30 P.M.**

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### PRESENT:

Councillor J. Pritchard - Chair  
Councillor G. Kirby - Vice Chair

### Councillors:

M. Adams, Mrs. E. M. Aldworth, Mrs C. Forehead, Miss E. Forehead, L. Harding, C. P. Mann,  
B. Miles, J. Ridgewell, Mrs M. E. Sargent, R. Saralis

### Cabinet Members:

C. Gordon (Corporate Services)

### Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services and Acting S151 Officer), L. Lucas (Head of Customer and Digital Services), L. Dallimore (Unison Branch Secretary), M. Jacques (Scrutiny Officer), S. Hughes (Committee Services Officer)

### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors K. Etheridge, G. Johnston, J. Taylor and L. Whittle, together with Mrs B. A. Jones (Deputy Leader and Cabinet Member Finance, Performance and Governance).

### **2. DECLARATIONS OF INTEREST**

Councillor M. Adams, Councillor C. Forehead and Councillor C. Mann declared a personal interest in agenda item 4. Details are minuted with the respective item.

### **REPORTS OF OFFICERS**

Consideration was given to the following reports.

### 3. DRAFT BUDGET PROPOSALS FOR 2020-21

S. Harris (Interim Head of Business Improvement Services and Acting S151 Officer) provided an overview of the report which had been presented to Cabinet on 13th November 2019. The report set out details of the draft budget proposals for the 2020/21 financial year and as part of the consultation process the Scrutiny Committee was asked to consider and comment upon the content, prior to a final decision by Full Council in February 2020.

Members were informed that details of the Provisional Local Government Financial Settlement are normally announced by the Welsh Government in early October each year. However, due to a combination of the continuing uncertainty around Brexit, the delay in undertaking the UK Government spending review, and the forthcoming General Election; the announcement of the Provisional Local Government Financial Settlement for 2020/21 had been delayed. At the time of writing the Draft Budget Proposals Report it was anticipated that the Provisional Settlement would be announced on the 26th November 2019. However, it has since been confirmed by the Welsh Government that details of the Provisional Settlement will not now be released until 16th December 2019. The Officer explained that to ensure sufficient time is allocated to consult on the Council's draft budget proposals for 2020/21, Cabinet endorsed the draft budget and associated savings proposals in advance of the announcement of the Provisional Local Government Financial Settlement.

Members were advised that the draft budget proposals use a start point based on the Medium-Term Financial Plan presented to Council on the 21st February 2019. This showed a projected 2020/21 savings requirement of £15.658m based on information available at that time. Members were further advised that the projected position for 2020/21 has since been reviewed based on updated information and a revised set of assumptions. This resulted in an updated projected savings requirement of £8.485m, which is a reduction of £7.173m on the position reported in February 2019. The Officer reported that the main reasons for the significant reduction in the savings requirement are an assumed cash flat position in respect of the core funding received from the Welsh Government, an assumption that cost pressures in respect of Teachers Pensions will be fully funded; and a proposed increase in Council Tax of 6.95%.

Reference was made to Appendix 2 of the report which provided details of the draft savings proposals for 2020/21 totalling £8.485m. Members were advised of the attempt to limit the impact on frontline services wherever possible by focussing on delivering efficiencies and through doing things differently. The Officer emphasised to Members that it will not be possible to achieve a balanced budget without having to make some difficult decisions and regrettably the draft budget proposals do include proposed service reductions and cuts totalling £3.708m.

In terms of the financial outlook for future years the Officer reported that the Medium-Term Financial Plan presented to Council in February 2019 showed a potential savings requirement of £44m for the four-year period 2020/21 to 2023/24. Considerable uncertainty remains surrounding the funding position moving forward. The UK Government has completed a spending review for 2020/21 only at this stage, so there is no indication of likely funding levels in the medium to long-term. Members were advised that with this in mind the MTFP has been updated based on current information and a revised set of assumptions, which resulted in an anticipated savings requirement of £27m for the four-year period 2021/22 to 2024/25. Further details were provided in Appendix 3 of the report.

The Chair thanked the Officer for the report and welcomed Members questions and comments.

With permission from the Chair, L. Dallimore (Unison Branch Secretary) addressed the Committee with regard to the budget proposals. The Officer recognised the efforts the Council has made over the last few years but asked Members of the Committee to consider the impact the draft budget proposals for 2020/21 will have on the workforce and to take into account

vacancy management. Members were informed that the CIPD Health and Well-being at Work Survey 2019 said that the top 3 causes of stress-related absence were 62% workloads/volume of work, 43% management style and 30% relationships at work. The Unison survey undertaken during summer reported that 63% of people said they didn't have enough time to do their job, 66% said they were doing more hours, 62% said the workloads were impacting on health and 94% said they felt that their workloads will increase over time. In response to a Members query it was confirmed that there were 343 survey returns (28%). The Committee thanked the Officer for her comments and acknowledged the points made.

A Member raised concerns regarding a significant new cost pressure for schools in relation to increases in employer contributions to the Teachers' Pension Scheme from September 2019 and highlighted that the draft budget proposals include a proposed reduction of 2% in the budgets that are delegated to schools. The Interim Head of Business Improvement Services and Acting S151 Officer reported that there was no funding included in the Local Government Financial Settlement for 2019/20 to meet this additional cost, albeit that a one-off grant has been provided during the year. It is currently assumed that the full-year impact of the increase in employer contributions to the Teachers' Pension Scheme will be fully funded by WG in 2020/21 and for subsequent financial years. The Director for Education and Corporate Services responded to the concerns raised regarding the reduction in the schools budget and advised Members that schools have been working with the Council since April last year to enable these savings to be made.

It was noted that the Education Scrutiny Committee had proposed that any additional funding in the Local Government Financial Settlement for 2020/21 should be earmarked for schools.

Reference was made to the PFI review and Members were informed that to date the review has focussed on contract management arrangements, benchmarking and affordability and will now progress to reviewing options for the future. It is currently anticipated that an options appraisal will be presented to Cabinet in spring 2020.

In terms of the budget cutting process a Member questioned its cost effectiveness and asked how the budget will be reviewed in future years. In response to the query, it was explained that a commercial approach and value for money will be a focus going forward, moving away from target setting.

During the course of debate, the Scrutiny Committee referenced a number of individual savings proposals and voiced concerns over the proposed closure of Trehir Household Waste Recycling Centre, the proposed decommissioning of 26 public open space CCTV cameras and the proposal to merge Community Safety Wardens with the Environmental Health General Enforcement Team. Members of the Committee were assured that these concerns were raised at the Environment and Sustainability Scrutiny Committee meeting and will be relayed to Cabinet.

A Member referred to Appendix 2 and suggested that the draft savings proposals spreadsheet should also identify the internal impact of the proposed saving and it was agreed to consider this suggestion moving forward. An Officer commented on the reduction in posts that are required as a consequence of savings proposals and recognised the impact that this will have on staff. In looking to develop proposals to address the significant financial challenges going forward it was accepted that the Council cannot continue as it is. Officers made reference to the transformation programme which will enable the Council to continue providing high quality value for money services but in an environment that will require new approaches.

Having fully considered the report and provided their comments as part of the consultation process, the Scrutiny Committee noted the details of the draft budget proposals for 2020/21.

#### **4. 2020/21 DRAFT SAVING PROPOSALS FOR CORPORATE SERVICES AND MISCELLANEOUS FINANCE**

Councillor M. Adams declared a personal interest in this item, in that his brother has recently joined the Citizens Advice Bureau as a Volunteer Advisor. Councillor C. Forehead declared a personal interest in this item, in that she is a former member of the Citizens Advice Bureau Trustee Panel. Councillor C. Mann declared a personal interest in this item, in that he is a member of the Citizens Advice Bureau Trustee Board and a member of the Groundwork Trustee Board.

S. Harris (Interim Head of Business Improvement Services and Acting S151 Officer) presented the report which provided details of the 2020/21 draft savings proposals for the Corporate Services Directorate and Miscellaneous Finance totalling £2.577m. As part of the consultation process the Scrutiny Committee was asked to consider and comment on the range of draft savings proposals outlined in the report and its associated appendices prior to final savings proposals being presented to Cabinet and Council in February 2020.

Members were referred to the Medium Term Financial Plan Saving Proposal Templates, which have been introduced to ensure that a consistent approach is applied to measure the impact of proposed savings, attached to the report as appendices 2 (1) to 2 (15).

The Scrutiny Committee discussed saving proposal C28 – reduction in Voluntary Sector Service Level Agreements (Citizens Advice, Groundwork Wales and GAVO). Members highlighted the detrimental impact the proposed savings would have on the support that is given to the Voluntary Sector. During the course of the ensuing debate, concerns were expressed regarding the impact on the organisations, future service provision and the significant impact to the public over the long term. The Officer informed Members that these concerns have been raised at a number of Committee meetings including the Voluntary Sector Liaison Committee meeting and the Leader has responded to a letter from the Citizens Advice Bureau. Following debate on this item it was moved and seconded that saving proposal C28 – Reduction in the Voluntary Sector Budget be referred back to Cabinet for reconsideration. By a show of hands this was unanimously agreed.

Members referred to the savings proposal to introduce a charge for the delivery of water to meeting rooms and noted that although classed as a saving, costs would be, in effect, be passed on to other budget holders.

A Member questioned the proposal to redirect £20m of current investments into long-term investment funds and was advised that further details will be provided in the Treasury Management Strategy report which is scheduled on the Policy and Resources Forward Work Programme for the 14th January 2020.

A discussion took place on saving proposal D12 – to increase the price of Meals Direct by 25p from April 2020 and saving proposal D16 – to increase the price of meals in the staff canteen by 3%. Following debate on this item it was moved and seconded to increase the price of Meals Direct by 3% and to increase the price of meals in the staff canteen by 4.5%, so that there is greater parity and the proposed Meals Direct increase is more in line with inflation. By a show of hands (and noting there was 1 against and 1 abstention) this was agreed by the majority present. It was noted that one Member raised concerns regarding the recommendation to further increase the price of the meals in the staff canteen. This concern was noted by the Officer and he advised that price of meals in the staff canteen had previously increased by 5% and it had not affected the demand.

Members made reference to saving proposal B11 – reduction in external Welsh language translation budget and were informed that the in house Translation Team is now in a stable position having previously lost staff to other organisations. It is hoped that this increased

stability will make the budget reduction easier to manage whilst still meeting legal requirements as more work will be translated internally.

In relation to the savings proposals to increase the price of school meals, Members referred to information in the report which detailed a survey between Welsh Local Authorities on current school meal prices and proposals, which has been used to benchmark the current prices. Members observed that the outcome of this survey evidences that Caerphilly has one of the lowest prices for school meals across Wales. Members questioned the methodology on the proposal to increase the price of school meals based on what other authorities are charging and sought clarification if this was equal value in terms of the quality of the meal provided. A Member noted that given the fact teachers are on a national pay scale, there seemed to be a huge variation in terms of the contributions they make to school meals. Members were advised that there is a national standard for school meals, however Officers recognised the point in relation to teachers contributions and agreed to look at this further.

Members referred to the saving proposal C32 – deletion of the match funding for community schemes budget and expressed concerns that the proposed withdrawal of funding for the Bargoed Ice Rink and Splash Pad in Senghenydd will impact on their future viability. In response, the Officer reiterated that the withdrawal of funding for both bodies was considered as part of the 2019/20 budget proposals but was deferred by one year to allow for a period of time for alternative funding to be explored. The Officer agreed to follow up Members queries with the Business Enterprise Renewal Team Leader. Members put forward suggestions for potential alternative funding solutions, including input from Town and Community Councils and cross border funding for events that are attended by more than one Community Council area.

Having fully considered its content the Scrutiny Committee:

RECOMMENDED to Cabinet:-

- (i) that saving proposal C28 – Reduction in the Voluntary Sector Budget be reconsidered by Cabinet.
- (ii) to increase the price of Meals Direct by 3% and to increase the price of meals in the staff canteen by 4.5%, so that there is greater parity and the proposed Meals Direct increase is more in line with inflation.

The meeting closed at 6.57 p.m.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 14th January 2020, they were signed by the Chair.

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CHAIR

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## **POLICY AND RESOURCES SCRUTINY COMMITTEE – 14TH JANUARY 2020**

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

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

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### **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 stakeholders.

### **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 12<sup>th</sup> November, 2019. The work programme outlines the reports planned for the period January 2020 to April 2020.

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 6th January, 2020. 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. **LINKS TO RELEVANT COUNCIL POLICIES**

7.1 The operation of scrutiny is required by the Local Government Act 2000. The Local Government Wales Measure 2011 and subsequent Statutory Guidance include requirements to publicise the work of scrutiny committees. The operation of scrutiny committee forward work programmes was agreed following decisions by Council in October 2013 and October 2015.

#### 7.2 **Corporate Plan 2018-2023.**

Scrutiny Committee forward work programmes contributes towards and impacts upon the Corporate Well-being Objectives by ensuring that the Executive is held to account for its Corporate Objectives, which are:

Objective 1 - Improve education opportunities for all

Objective 2 - Enabling employment

Objective 3 - Address the availability, condition and sustainability of homes throughout the county borough and provide advice, assistance or support to help improve people's well-being

Objective 4 - Promote a modern, integrated and sustainable transport system that increases opportunity, promotes prosperity and minimises the adverse impacts on the environment

Objective 5 - Creating a county borough that supports a healthy lifestyle in accordance with the sustainable Development Principle within the Wellbeing of Future Generations (Wales) Act 2015

Objective 6 - Support citizens to remain independent and improve their well-being

### 8. **WELL-BEING OF FUTURE GENERATIONS**

8.1 The Forward Work Programmes contribute to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2016 by ensuring there is an effective scrutiny function and that council policies are scrutinised against the following goals:

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

## **9. EQUALITIES IMPLICATIONS**

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

## **10. FINANCIAL IMPLICATIONS**

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

## **11. PERSONNEL IMPLICATIONS**

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

## **12. CONSULTATIONS**

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

## **13. STATUTORY POWER**

13.1 The Local Government Act 2000, The Local Government (Wales) Measure 2011.

Author: Mark Jacques, Scrutiny Officer

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 James Pritchard, Chair, Policy and Resources Scrutiny Committee  
Councillor Gez Kirby, 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

## Appendix 1 - Forward Work Programme - Policy & Resources

Date	Title	Key Issues	Author	Cabinet Member
14/01/2020 17:30	Use of Reserves	Ensuring Authority is open and transparent about what reserves are held for and why.	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	(17) Consultation & Engagement Framework	Part of #TeamCaerphilly Action Plan	Lancaster, Hayley	Cllr. Stenner, Eluned
14/01/2020 17:30	Treasury Management Strategy	To ensure members have the opportunity to ask questions and propose changes for Full Council to consider in respect of the	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	Information Item - Write off Debts	To comply with Financial Regulations	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	Information Item - Capital budget monitoring 2019/20 -Period 7	To ensure members are aware of any issues in respect of capital expenditure.	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	Information Item - Capital Strategy 2020/21	To ensure members have an opportunity to call this report to the Agenda if they wish to ask questions and raise comments /or changes prior to Council approval.	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	Information Item - Whole Authority Budget Monitoring	Ensuring budget monitoring reports are presented and members are given the opportunity to see how spend is progressing against budget to ensure services spend within Council approved limits.	Harris, Stephen R	Cllr. Stenner, Eluned
14/01/2020 17:30	Information Item - Corporate Services & Miscellaneous Finance - Budget Monitoring - Period 7	To ensure members are aware of any issues in respect of services overspending.	Harris, Stephen R	Cllr. Stenner, Eluned
25/02/2020 17:30	Treasury management – Period 9	Ensuring level of investment income on target to budget for 2019/20 and advise of borrowing for 2019/20.	Harris, Stephen R	Cllr. Stenner, Eluned
25/02/2020 17:30	Caerphilly County Borough Council's Strategic Equality Plan 2020-2024	To seek approval of the Strategic Equality Plan 2020-2024 to be formally adopted as Council Policy.	Cullinane, Anwen	Cllr. Stenner, Eluned

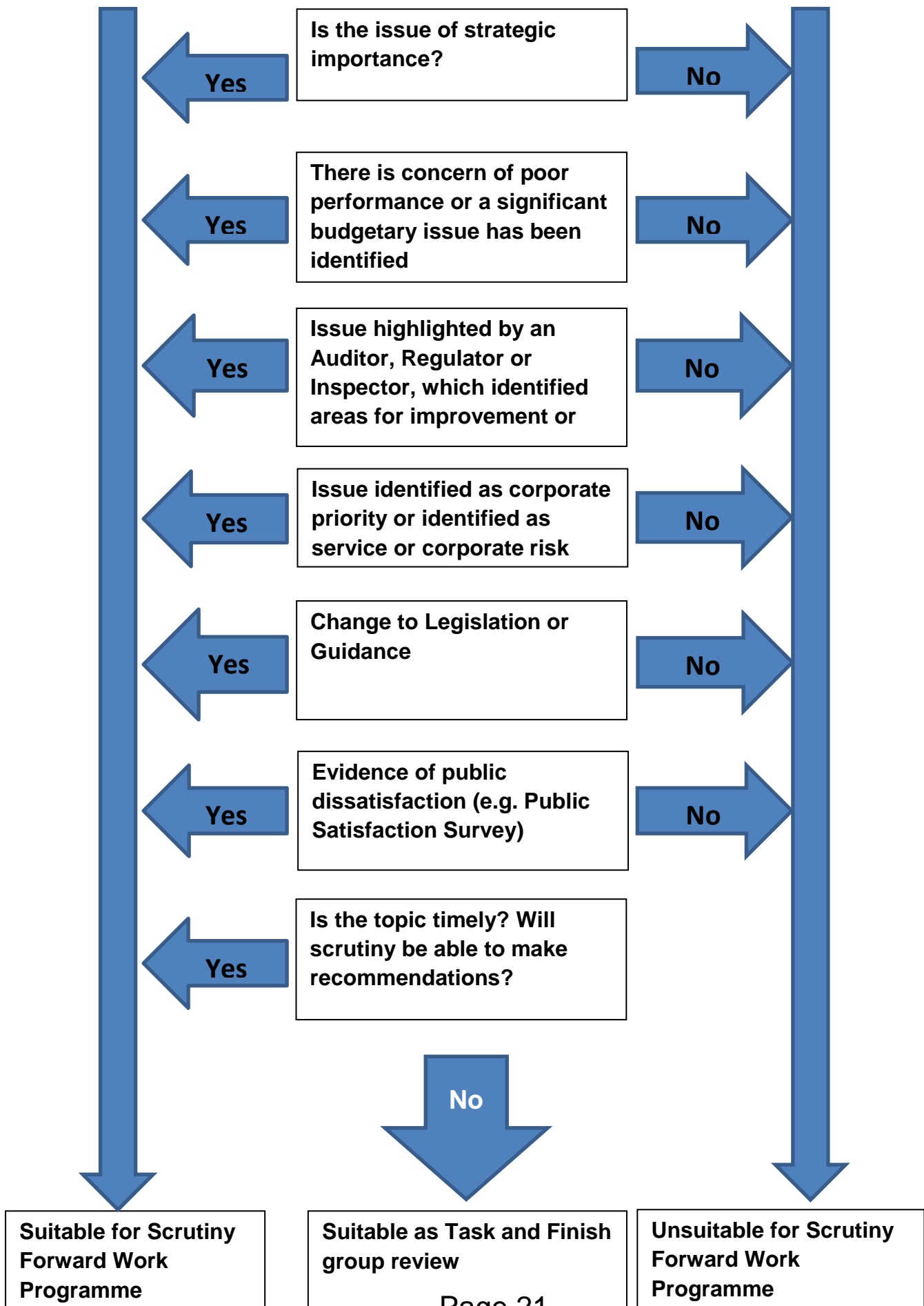
## Appendix 2 - Forward Work Programme - Cabinet

Date	Title	Key Issues	Author	Cabinet Member
15/01/2020 10:30	Affordable Housing New Build	For Cabinet to note the progress on a number of new builds and refurbishment projects, and to seek Cabinet approval to appropriate the land at Ty Darren, Risca and the transfer of associated funds to Caerphilly Homes.	Couzens, Shaun; Williams, Mark	Cllr. Phipps, Lisa
15/01/2020 10:30	Waste and Recycling Collection Systems	To advise Cabinet of the findings of the Regeneration and Environment Scrutiny Waste Review Working Group and to seek Cabinet approval for recommendations relating to the Authority's waste and recycling services.	Hartshorn, Robert	Cllr. George, Nigel
15/01/2020 10:30	VTF Civic Crowdfunding Proposal	To agree a partnership funding arrangement with Welsh Government and a number of neighbouring local authorities including Merthyr Tydfil, Neath Port Talbot, Torfaen, Bridgend and Blaenau Gwent to support the development of a crowdfunding platform aimed at delivering community and civic led projects.	Kyte, Rhian	Cllr. Morgan, Sean
29/01/2020 10:30	To determine a specific discretionary rate relief scheme in respect of Welsh Government (WG) 2019/20 Grant Funding	To agree proposals for distribution of the funding	Carpenter, John	Cllr. Stenner, Eluned
29/01/2020 10:45	Proposed Use of Reserves	To consider proposals for the use of reserves.	Harris, Stephen R	Cllr. Stenner, Eluned
29/01/2020 11:00	Corporate Volunteering	To consider our options for the establishment of a Corporate Volunteering Scheme on a Directorate or Whole Organisation basis.	Peters, Kathryn; Street, Dave	Cllr. Gordon, Colin J
29/01/2020 11:15	Community Sport - Regional agenda	To consider future delivery options for community sport on a regional (pan "Gwent") basis.	Lougher, Jared	Cllr. George, Nigel
12/02/2020 10:30	Heads of the Valleys Masterplan	The report is seeking the view of members prior to its presentation to Cabinet, where Cabinet will be asked to endorse the Draft Masterplan as the basis for a public consultation exercise.	Kyte, Rhian	Cllr. Stenner, Eluned
12/02/2020 10:30	Land adjacent to Transcend, Ystrad Mynach	To consider options for the sale of land.	Williams, Mark	Cllr. Phipps, Lisa

## Appendix 2 - Forward Work Programme - Cabinet

Date	Title	Key Issues	Author	Cabinet Member
12/02/2020 10:30	ERDF 4.4 Funding opportunities - The Lawn Industrial Estate, Rhymney and Ty Du, Nelson	This report outlines the opportunities for the council to enhance the development at Ty Ddu, Neslon with further industrial units	Kyte, Rhian	Cllr. Morgan, Sean
12/02/2020 10:30	Caerphilly LA FSM Strategy	Consider a coordinated approach to accelerating the progress of this group of learners	Warren, Paul	Cllr. Jones, Barbara
26/02/2020 10:30	Directorate Performance Assessments	To discuss and approve the new Directorate Performance Assessments and service planning framework.	Roberts, Ros	Cllr. Stenner, Eluned
26/02/2020 10:30	(17) Consultation & Engagement Framework	Part of #TeamCaerphilly Action Plan To approve the EAS Business Plan for 20-21	Lancaster, Hayley	Cllr. Stenner, Eluned
11/03/2020 10:30	EAS Business Plan		Cole, Keri	Cllr. Jones, Barbara
11/03/2020 10:30	Caerphilly County Borough Council's Strategic Equality Plan 2020-2024	To seek approval of the Strategic Equality Plan 2020-2024 to be formally adopted as Council Policy.	Cullinane, Anwen	Cllr. Stenner, Eluned
11/03/2020 10:30	Integrated Transport Unit with RCT CBC/ CCBC	Consideration of a collaborative approach to the delivery of Integrated Transport Unit services.	Lloyd, Marcus	Cllr. Morgan, Sean
25/03/2020 10:30	(16) Community Asset Transfer Policy to be finalised and approved by Cabinet	Strategic Plan - Development of a policy and options to deliver a framework for Community Asset Transfer	Peters, Kathryn; Broadhurst, Timothy	Cllr. Stenner, Eluned

**Scrutiny Committee Forward Work Programme Prioritisation**



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## **POLICY AND RESOURCES SCRUTINY COMMITTEE – 14th JANUARY 2020**

**SUBJECT: UPDATE ON RESERVES**

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

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### **1. PURPOSE OF REPORT**

1.1 To present the Scrutiny Committee with details of the usable reserves held by the Authority.

### **2. SUMMARY**

2.1 The report provides details of the usable reserves held by the Authority. Details are provided of the audited balances as at the 1st April 2019 along with updated balances reflecting in-year adjustments to date for the 2019/20 financial year.

2.2 The report also provides details of balances that are available for the one-off funding of capital schemes.

### **3. RECOMMENDATIONS**

3.1 Members of the Scrutiny Committee are asked to:-

3.1.1 Note the content of the report.

3.1.2 Support a recommendation to Cabinet that funding totalling £24.543m (Capital Earmarked Reserves £21.107m and Council Tax Reduction Scheme £3.436m) should be set aside pending the preparation of a report during the spring that will outline proposals to utilise this sum for investments in the Council's 'place shaping' agenda.

### **4. REASONS FOR THE RECOMMENDATIONS**

4.1 To ensure that the Scrutiny Committee is provided with details of the usable reserves held by the Authority and is able to consider specific proposals to Cabinet.

## 5. THE REPORT

5.1 Appendix 1 provides details of the Authority's usable reserves which totalled £118.524m as at the 1<sup>st</sup> April 2019. Based on an assessment of in-year adjustments to date the current balance on usable reserves is £119.041m. The following paragraphs provide a detailed commentary on the balances held.

### 5.2 General Fund

5.2.1 The opening balance on the General Fund as at the 1<sup>st</sup> April 2019 was £15.089m. After adjusting for 2019/20 approved in-year use of General Fund balances the current General Fund balance is £11.659m. This is summarised in the table below: -

	£m	£m
<b>General Fund Opening Balance as at 01/04/19</b>		<b>15.089</b>
<b>In-Year Use of General Fund Balance: -</b>		
2018/19 Council Tax Surplus to support 2019/20 Budget (Special Council 21/02/19)	(1.050)	
Transfer to Capital Earmarked Reserves (Special Council 30/07/19)	(2.380)	
		<b>(3.430)</b>
<b>Current General Fund Balance</b>		<b>11.659</b>

5.2.2 In line with the Council's Reserves Strategy the Section 151 Officer provides advice on the appropriate level of the General Fund Reserve annually as part of the budget setting process and this is subject to approval by Cabinet and Full Council. Typically, the Section 151 Officer has recommended in previous budget reports to Council that the minimum balance on the General Fund Reserve should be £10m i.e. circa 3% of the Council's net revenue budget. The 2020/21 budget report will be presented to Council on the 20<sup>th</sup> February 2020 and this will include a further update on the General Fund balance along with appropriate recommendations.

### 5.3 Housing Revenue Account (HRA)

5.3.1 HRA funds must be ring-fenced and cannot be transferred into General Fund balances. The balance on the HRA usable reserves as at the 1<sup>st</sup> April 2019 was £6.041m. Most of this funding will be utilised for the Welsh Housing Quality Standard (WHQS) Capital Programme.

### 5.4 Capital Reserves

5.4.1 Capital reserves are ring-fenced for the Authority's Capital Programme. These balances have been subject to a detailed review and it is currently anticipated that the balance of capital reserves as at the 31<sup>st</sup> March 2020 will be £51.961m. As a result of the review work undertaken, £21.107m of this balance is confirmed as being available for one-off investments in new capital schemes. A report will be prepared during the spring outlining proposals to utilise this sum for investments in the Council's 'place shaping' agenda. This report will be presented to the Policy & Resources Scrutiny Committee prior to consideration by Cabinet and Council.

## 5.5 Corporate Services

5.5.1 The current balance on Corporate Services reserves after updating for in-year adjustments is £31.803m. The following table provides details of individual balances and the purpose of the reserves: -

Reserve	Amount £m	Description
Trehir Reserve	0.235	Required for potential works on former landfill site.
Invest to Save Reserve	0.469	To provide repayable one-off financial support for service initiatives that deliver cashable savings.
Insurance Earmarked Reserve	6.692	Self-insurance facility. The Authority's insurance excess is £250k. All claims below this level are funded through the insurance earmarked reserve.
Risk Management Reserve	0.416	To support risk management initiatives that mitigate insurance claims.
Corporate Property Service Initiatives Reserve	0.140	To fund a fixed-term Asset Management Co-ordinator and to support Corporate building schemes.
Electoral Admin Reserve	0.382	Cumulative balance on funding set aside annually for local elections.
Health & Safety Initiatives	0.262	To meet one-off unavoidable cost pressures in Council establishments.
PC Replacement Reserve	0.759	This reserve funds the ongoing replacement of essential IT hardware and software across the Authority.
Private Finance Initiative (PFI) Equalisation Reserves	10.772	Committed to funding approved PFI Schemes.
Corporate Services Service Initiatives Reserves	10.224	<ul style="list-style-type: none"> <li>• Care-line (£267k) – Retained underspends on the Care First budget.</li> <li>• Counsel Fees (£368k) – Retained underspends on the Counsel Fees revenue budget.</li> <li>• Council Tax Reduction Scheme (£3.436m) – Retained underspends on the CTRS budget. <b>It is proposed that this sum is transferred to Capital Earmarked Reserves.</b></li> <li>• Apprenticeship Scheme (£511k) – Committed to ongoing apprenticeships and for match-funding ESF projects.</li> <li>• Member Services (£141k) – Ring-fenced retained underspends on the Member Services budget.</li> <li>• Voluntary Sector Grants (£129k) – Retained underspends on the Grants to the Voluntary Sector budget. This budget is monitored by Members on the Grants to the Voluntary Sector Panel.</li> </ul>

		<ul style="list-style-type: none"> <li>• Municipal Mutual Insurance (MMI) Levy (£251k) – Funding set aside to meet future liabilities arising from the MMI Scheme of Arrangement.</li> <li>• Senior Officer Investigation (£247k) – This has now been finalised and any balance remaining will be released at the end of the current financial year.</li> <li>• Replacement of IDOX Document Management System for Council Tax/Housing Benefits (£59k).</li> <li>• Contingency for one-off cost of MTFP staffing reductions (£381k).</li> <li>• Contingency for cost pressures in Waste Management (£400k).</li> <li>• 2Yr fixed term grade 6 post HR (Sickness Absence Monitoring) (£60k)</li> <li>• 1yr Fixed Term Post Grade 7 in Corporate Property (Electrician) (£35k).</li> <li>• 1yr Fixed Term Post Grade 10 in Corporate Property (Land Sales) (£48k)</li> <li>• General Ledger Upgrade - funding of upgrade in 2018/19 to V5.5 (£58k).</li> <li>• Income Management System Upgrade - cost of introducing new cash income system supplied by Capita in 2018/19. (£85k)</li> <li>• Fixed-Term Grade 5 in Council Tax Team (£27k).</li> <li>• Digital Strategy implementation (Thoughtonomy) (£100k).</li> <li>• Digital Strategy implementation (Abavus) (£428k).</li> <li>• Caerphilly 2022 Leadership Development (£100k).</li> <li>• Fixed-Term Policy Officer (£20k).</li> <li>• LED Lighting in Ty Penallta (£31k).</li> <li>• Education contributions to ESF Programmes (£322k).</li> <li>• MTFP Savings Delivery Earmarked Reserve (£1.720m).</li> <li>• Brexit Earmarked Reserve (£1m).</li> </ul>
Salix Finance	0.296	To support energy saving initiatives.
Retained Underspends Reserves	1.156	Accumulated service underspends.
<b>Total: -</b>	<b>31.803</b>	

5.5.2 Members will note from the above that £1.156m is held in 'Retained Underspends Reserves'. Cabinet has previously agreed a policy whereby service areas retain 50% of reported underspends at the financial year-end. Conversely, any service based overspends are carried forward by the service areas responsible for generating the overspends. This approach has worked well as there is full ownership and accountability by budget holders in respect of delivering a balanced budget. At its meeting on the 27<sup>th</sup> July 2016, Cabinet agreed a Reserves Strategy which included the introduction of a cap

on the cumulative amount that can be held by Directorates in service underspend reserves. This will be covered in more detail in section 5.9 of this report.

## 5.6 Communities

5.6.1 The current balance on Communities reserves after updating for in-year adjustments is £4.266m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
DLO Surplus/Deficit	0.038	Retained cash surplus for Network Contracting Services (NCS) work arising from the Sirhowy Enterprise Way PFI contract.
Planning - Community Infrastructure Levy	1.688	Revenue generated from the Community Infrastructure Levy.
Planning - LDP Related Expenditure	0.140	Ring-fenced reserve for completion of a new CCBC Local Development Plan.
Highways – Service Specific Reserve.	0.500	Ring-fenced winter maintenance reserve.
Community Regeneration Fund	0.056	Approved grants to be drawn down.
Economic Development – Service Initiative Reserve.	0.002	£2k relates to footfall counters. This will be removed at year-end if not utilised.
Area Forum Reserve	0.040	This is being utilised to support agreed MTFP savings in this area.
Communities - Service Specific	1.500	Regeneration Board - Fund created to develop projects to stimulate economic development in the area. Any unspent balance will be carried forward into the 2020/21 financial year.
Retained Underspends Reserves	0.302	Accumulated service underspends.
<b>Total: -</b>	<b>4.266</b>	

## 5.7 Education & Lifelong Learning

5.7.1 The current balance on Education & Lifelong Learning reserves after updating for in-year adjustments is £7.419m. The following table provides details of individual balances and the purpose of the reserves: -

Reserve	Amount £m	Description
Service Initiatives Reserve	1.862	<ul style="list-style-type: none"> <li>• ESF Bridges into Work – Match-funding contribution (£537k).</li> <li>• ESF Working Skills for Adults - Match-funding contribution (£267k).</li> <li>• ESF Inspire to Work – Match-funding contribution (£22k).</li> <li>• Transport Equalisation Account (£23k).</li> <li>• Voluntary Early Release (VER) costs (£575k) – Required to meet ongoing liabilities in schools.</li> <li>• Contribution to Grade 9 Fire Officer (£23k).</li> <li>• Traffic Calming Islwyn High (£1k). This will be removed at year-end if not utilised.</li> <li>• Budget Pressures - Behaviour &amp; Mental Health (£140k).</li> <li>• Post 16 / Single Sex Review (£64k).</li> <li>• Period Products (2018-19 Displaced Funding) (£140k).</li> <li>• Fixed-Term Health &amp; Safety Officer for schools (£45k).</li> <li>• Extension of part-time Fire Officer (£26k).</li> </ul>
Schools PFI Earmarked Reserves	1.094	Contingent sum for unforeseen cost pressures for 2 PFI schools.
School Balances	2.520	Net overall retained underspends ring-fenced to schools.
Local Management of Schools (LMS) Contingency.	1.943	Accumulated underspends on LMS revenue budget. This reserve is maintained to support potential redundancy costs in schools, statutory maintenance costs and other unforeseen unavoidable cost pressures.
Accumulated Service Underspends	0.000	As per agreed policy (see paragraph 5.5.2).
<b>Total: -</b>	<b>7.419</b>	

## 5.8 Social Services & Housing

5.8.1 The current balance on Social Services & Housing reserves after updating for in-year adjustments is £5.891. The following table provides details of individual balances and the purpose of the reserves: -

Reserve	Amount £m	Description
Community Activities Reserve	0.042	To support trading activities in Day Centres.

Service Initiatives Reserve (Social Services)	0.810	<ul style="list-style-type: none"> <li>• Finance IT System (£26k) – Required to deal with any unforeseen costs arising from the implementation of the Welsh Community Care Information System (WCCIS).</li> <li>• Gwent Frailty Programme (£64k) – To meet future Invest to Save loan repayments to the Welsh Government.</li> <li>• Learning Disability Social Workers (£68k).</li> <li>• AMHP training backfill (£32k).</li> <li>• Feasibility Study for regional Deputyship Service (£42k).</li> <li>• Additional Service Manager capacity (£281k).</li> <li>• Family aid for parents with Learning Disabilities (£258k).</li> <li>• Equipment to enable single-handed Home Care calls (£39k).</li> </ul>
Service Initiatives Reserve (Housing)	0.460	<ul style="list-style-type: none"> <li>• Renewal Fund for future building costs at Ty Croeso single persons' accommodation (£141k).</li> <li>• Renewal fund for the replacement of white goods and internal decoration at Ty Fesen family accommodation (£180k).</li> <li>• Shortfall in Shelter contract payments for 2017/18 to 2019/20 (£41k).</li> <li>• Homelessness prevention (£98k).</li> </ul>
Reserves Held for Partnerships	2.178	<p>Reserves held on behalf of partnerships led by Caerphilly CBC: -</p> <ul style="list-style-type: none"> <li>• North Resource Centre (£17k).</li> <li>• SE Wales Shared Lives Scheme (£61k).</li> <li>• Youth Offending Service (£698k).</li> <li>• SE Wales Safeguarding Children Board (£397k).</li> <li>• SE Wales Emergency Duty Team (£31k).</li> <li>• Gwent Frailty Programme (£974k).</li> </ul>
Accumulated Service Underspends	2.401	As per agreed policy (see paragraph 5.5.2). Social Services (£2.086m), Housing (£315k).
<b>Total: -</b>	<b>5.891</b>	

## 5.9 Cap on Retained Underspend Reserves

- 5.9.1 As mentioned in paragraph 5.5.2, at its meeting on the 27<sup>th</sup> July 2016 Cabinet agreed a Reserves Strategy which included the introduction of a cap on the cumulative amount that can be held by Directorates in service underspend reserves. This cap is set at 3% of the net revenue budget for each Directorate and where this is exceeded then proposals must be presented to utilise the excess or a justification must be made to hold the reserves above the 3% level. The following table summarises the 2019/20 net budget for each

Directorate, the current balance on underspend reserves and whether the cap has been exceeded:-

<b>Directorate</b>	<b>2019/20 Net Budget £m</b>	<b>Reserve Balance £m</b>	<b>3% Cap £m</b>	<b>Excess Above Cap £m</b>
Corporate Services	20.091	1.156	-	-
Education & Lifelong Learning	34.349	0.000	-	-
Sub-Total: -	54.440	1.156	1.633	-
Communities	40.044	0.302	1.201	-
Social Services & Housing	93.189	2.401	2.795	-

5.9.2 The above table demonstrates that balances are currently within the 3% cap. Members will note that the figures for Corporate Services and Education & Lifelong Learning have been combined as these are now managed as a single Directorate.

## **6. ASSUMPTIONS**

6.1 There are no assumptions within this report.

## **7. LINKS TO RELEVANT COUNCIL POLICIES**

7.1 Ensuring that adequate General Fund balances are maintained to meet any unforeseen expenditure and the establishment of specific reserves to meet known future financial commitments are key elements of prudent financial management.

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

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

## **8 WELL-BEING OF FUTURE GENERATIONS**

8.1 Effective financial management including the utilisation of reserves is a key element in ensuring that the Well-being Goals within the Well-Being of Future Generations (Wales) Act 2015 are met.

## **9. EQUALITIES IMPLICATIONS**

9.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified regarding this report; therefore a full EIA has not been carried out.



## **10. FINANCIAL IMPLICATIONS**

10.1 As detailed throughout the report.

## **11. PERSONNEL IMPLICATIONS**

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

## **12. CONSULTATIONS**

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

## **13. STATUTORY POWER**

13.1 The Local Government Acts 1998 and 2003.

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Dave Roberts, Principal Group Accountant, Corporate Services  
Mike Eedy, Finance Manager, Environment  
Jane Southcombe, Finance Manager, Education & Lifelong Learning  
Mike Jones, Interim Financial Services Manager, Social Services  
Lesley Allen, Principal Accountant, Housing  
Rob Tranter, Head of Legal services and Monitoring Officer  
Cllr Eluned Stenner, Cabinet Member for Finance, Performance and Planning

Background Papers:  
Cabinet (27/07/16) – Reserves Strategy  
Special Council (30/07/19) – Financial Accounts 2018/19

Appendices:  
Appendix 1 - List of Usable Reserves

**List of Usable Reserves**

**Appendix 1**

Directorate / Service Area	Description	Opening Balance 1.4.2019	2019/20 In-Year Adjustments	Updated Balance Relecting In-Year Adjustments	Earmarked For Potential One Off Funding of Capital Schemes
<b>1 General Fund</b>					
Corporate	General Fund	-15,089,227	3,430,000	-11,659,227	0
<b>Total General Fund</b>		<b>-15,089,227</b>	<b>3,430,000</b>	<b>-11,659,227</b>	<b>0</b>
<b>2 Housing Revenue Account</b>					
Housing Revenue Account	Various	-6,041,235	0	-6,041,235	
<b>Total HRA</b>		<b>-6,041,235</b>	<b>0</b>	<b>-6,041,235</b>	<b>0</b>
<b>3 Capital Reserves</b>					
Capital Earmarked Reserves	Various	-24,109,325	7,433,378	-16,675,948	
Useable Capital Receipts	Various	-9,979,459	3,462,178	-6,517,281	
Capital Grants Unapplied	Various	-11,607,160	3,945,363	-7,661,797	
Corporate Projects Capital Funding		0	-21,106,208	-21,106,208	-21,106,208
<b>Total Capital Reserves</b>		<b>-45,695,945</b>	<b>-6,265,290</b>	<b>-51,961,235</b>	<b>-21,106,208</b>
<b>4 Corporate Services</b>					
Corporate	TREHIR RESERVE	-584,549	350,000	-234,549	
Corporate - Capital	RESERVE - INVEST TO SAVE	-313,300	-156,183	-469,483	
Insurance Fund	INSURANCE EARMARKED RESERVE	-6,692,314	0	-6,692,314	
Insurance Fund	RISK MANAGEMENT RESERVE	-415,558	0	-415,558	
Property Services	SERVICE INITIATIVES RESERVE	-139,590	0	-139,590	
Corporate Services	ELECTORAL ADMIN RESERVES	-382,029	0	-382,029	
Corporate Services	HEALTH & SAFETY INITIATIVES	-262,606	0	-262,606	
Corporate Services	CORPORATE PC REPLACEMENT RESER	-759,292	0	-759,292	
Corporate Services	SEW PFI EQUALISATION RESERVE	-2,076,662	0	-2,076,662	
Corporate Services	EDUC PFI EQUALISATION RESERVE	-8,694,566	0	-8,694,566	
Corporate	SERVICE INITIATIVES RESERVE	-2,836,053	-782,349	-3,618,401	
Corporate Services	SERVICE INITIATIVES RESERVE	-7,111,717	506,000	-6,605,717	-3,436,439
Property - Capital	SALEX FINANCE	-296,132.98	0.00	-296,132.98	
Property Services - Building Consultancy	RESER - UNDER/ OVER SPEND C/F	-54,203	0	-54,203	
Corporate Services	RESER - UNDER/ OVER SPEND C/F	-1,459,135	357,573	-1,101,562	
<b>Total Corporate Services</b>		<b>-32,077,705</b>	<b>275,041</b>	<b>-31,802,663</b>	<b>-3,436,439</b>
<b>5 Communities</b>					
Infrastructure	DLO SURPLUS / DEFICIT C/F	-38,335	0	-38,335	
Planning	COMMUNITY INFRASTRUCTURE LEVY	-1,205,335	-482,822	-1,688,157	
Planning	SERVICE INITIATIVES RESERVE	-140,268	0	-140,268	
Infrastructure	SERVICE INITIATIVES RESERVE	-500,000	0	-500,000	
Economic Development and Tourism	RESERVE - COMMUNITY REGEN FUND	-56,071	0	-56,071	
Economic Development and Tourism	SERVICE INITIATIVES RESERVE	-1,874	0	-1,874	
Planning	RESERVE - AREA FORUM	-40,064	0	-40,064	
Community and Leisure Services	RESERVES - CEMETERIES	-1,203,457	1,203,457	0	
Communities Directorate	SERVICE INITIATIVES RESERVE	-300,000	-1,200,000	-1,500,000	
Communities Directorate	RESER - UNDER/ OVER SPEND C/F	-516,596	215,315	-301,281	
Economic Development and Tourism	RESER - UNDER/ OVER SPEND C/F	-198	0	-198	
Trading Standards	RESER - UNDER/ OVER SPEND C/F	0	0	0	
Environmental Health	RESER - UNDER/ OVER SPEND C/F	0	0	0	
<b>Total Communities</b>		<b>-4,002,200</b>	<b>-264,049</b>	<b>-4,266,249</b>	<b>0</b>
<b>6 Education &amp; Lifelong Learning</b>					
Education and Lifelong Learning	SERVICE INITIATIVES RESERVE	-1,651,359	-211,254	-1,862,613	
Education and Lifelong Learning	PFI SCHOOLS EARMARKED RESERVES	-1,093,924	0	-1,093,924	
Schools	RESERVES - DELEGATED SCHOOLS	-2,520,343	0	-2,520,343	
Education and Lifelong Learning	RESERVES LMS EARMARKED	-2,442,540	500,000	-1,942,540	
Education and Lifelong Learning	RESER - UNDER/ OVER SPEND C/F	-570,211	570,211	0	
<b>Total Education and Lifelong Learning</b>		<b>-8,278,377</b>	<b>858,957</b>	<b>-7,419,420</b>	<b>0</b>
<b>7 Social Services &amp; Housing</b>					
Social Services	RESER - SOC SERV COMM ACTIVI	-71,509	29,845	-41,664	
Social Services	SERVICE INITIATIVES RESERVE	-1,336,216	526,044	-810,172	
Social Services	RESERVES HELD FOR PARTNERSHIPS	-2,828,594	651,044	-2,177,550	
Social Services	RESER - UNDER/ OVER SPEND C/F	-2,328,335	242,000	-2,086,335	
General Fund Housing	SERVICE INITIATIVES RESERVE	-460,107	0	-460,107	
General Fund Housing	RESER - UNDER/ OVER SPEND C/F	-206,062	0	-206,062	
Private Housing	RESER - UNDER/ OVER SPEND C/F	-108,756	0	-108,756	
<b>Total Social Services</b>		<b>-7,339,580</b>	<b>1,448,932</b>	<b>-5,890,647</b>	<b>0</b>
<b>Grand Total</b>		<b>-118,524,268</b>	<b>-516,409</b>	<b>-119,040,677</b>	<b>-24,542,647</b>



## POLICY AND RESOURCES SCRUTINIY COMMITTEE – 14TH JANUARY 2020

**SUBJECT: TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2020/2021**

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

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### 1. PURPOSE OF REPORT

- 1.1 To submit for consideration prior to its presentation to Council the 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 2020/2021.
- 1.4 Appendix 7 is based on an indicative capital programme.

### 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 1<sup>st</sup> 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 Annual Strategy for Treasury Management 2020/21 be considered and noted by the Policy and Resources Scrutiny Committee prior to Council approval.
- 3.2 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.
- 3.3 That the Prudential Indicators for Treasury Management be considered for approval as per Appendix 5.
- 3.4 That the Prudential Indicators for Capital Financing be considered for approval as per Appendices 6 & 7 based on the indicative capital programme.
- 3.5 That Members adopt the MRP policy as set out in Appendix 8.
- 3.6 The continuation of the 2019/20 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.
- 3.7 That the Authority borrows £32.3m for the General Fund to support the 2020/21 capital programme and £52.0m for the HRA WHQS and Affordable Homes programme.
- 3.8 That the Authority continues to adopt the investment grade scale as a minimum credit rating criteria as a means to assess the credit worthiness of suitable counterparties when placing investments.
- 3.9 That the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.
- 3.10 That the Authority invests a minimum of £20m into long-term Strategic Pool Funds as set in Appendix 9 of the report, with the aim of generating additional investment income of £718k.

### **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 August 2018 to 0.75% and has remained unchanged since. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. The downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal. If rates were to increase in the future then increases are likely to be gradual.
- 5.1.3 The major external influence on the Authority's treasury management strategy for 2020/21 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased. Whilst a technical recession has been avoided in 2019, economic growth is forecasted to remain sluggish throughout 2020/21, with falling household and business confidence.
- 5.1.4 Consumer price inflation reached 1.5% in November 2019. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices and impacting further on energy prices.
- 5.1.5 Growth in Europe remains soft, driven by a weakening German economy which is expected to slip into a technical recession. The European Central Bank is expected to maintain the Eurozone interest rate at zero percent as well as maintaining its quantitative easing programme. In the US, the Federal Reserve began easing monetary policy in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Federal Reserve cut interest rates, and financial markets expect further loosening of monetary policy in 2020.
- 5.1.6 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets. This will have an impact on the Council's Treasury returns. If interest rates fall then the Council's investment income will reduce.
- 5.1.7 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.75% for the foreseeable future until the end of 2022 although the risks are weighted in favour of a rate cut. The risks are driven by political uncertainty; the need for greater clarity on Brexit; and the continuing global economic slowdown. The Bank of England's MPC have agreed that any future increase would be limited and gradual.

## **5.2 Interest Rate Prospects- Long-term**

5.2.1 Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy. Gilt yields are expected to remain at relatively low levels for the foreseeable future, with risks to be broadly balanced.

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

## **5.3 External Debt - Capital Borrowings and Borrowing Portfolio Strategy**

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

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

5.3.3 The difference between current long-term borrowing rates and short-term investment rates has resulted in a "cost of carry" scenario, indicating that it is more advantageous to use internal funding in lieu of borrowing. The cost of carry is likely to remain an issue until the Bank Rate and short term market rates increase in the future. The Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £56m (as at 31<sup>st</sup> March 2019) from which capital expenditure has been funded. Unless the policy is prudent, the Authority will no longer adopt the policy of internal borrowing. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

5.3.4 It is anticipated that the borrowing requirement of £32.3m will need to be taken up in 2020/21 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 £52.0m in 2020/21 to fund the WHQS capital programme and new affordable homes programme, though some of the HRA borrowing may be deferred to future years subject to the Business Plan revisions.

5.3.5 Therefore the total 2020/21 borrowing requirement will be £84.4m comprising of:

- 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 WHQS- £22.0m
- HRA Affordable Housing - £30.0m

The LGBI borrowing is funded by WG contributions to support the 21<sup>st</sup> 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.

- 5.3.6 Whilst PWLB interest rates have been included in Appendix 2, it is possible that loans may be taken from other sources if interest rates are more advantageous. It is suggested that the target rate for new borrowing be set at 4.50% for a 25 year period loan. However, other periods will be considered if the rates are favourable.
- 5.3.7 Current PWLB forecasts suggest interest rates will remain volatile during 2020/21 and will be influenced by geopolitical tensions; global economic prospects and the outcome of the Brexit negotiations. The use of internal borrowing to fund the 2020/21 capital programme or the decision to defer borrowing as set out in paragraph 5.3.4 could expose the Authority to rising interest rates thus making it expensive to borrow at a later date. A budget to cover the cost of raising £32.3m new debt finance will remain in place irrespective of the decision to borrow internally or externally.
- 5.3.8 Any short-term funding would need to be in line with the 'Upper Limit for Variable Rates' as defined in the prudential indicators in **Appendix 5** (30% of Net Debt Outstanding) within the CIPFA "Prudential Code for Capital Expenditure in Local Government".
- 5.3.9 Officers, in conjunction with the Treasury Management Adviser, will continue to monitor both the prevailing rates and the market forecasts, responding to changes when necessary. The following borrowing sources will be considered by the Authority to fund short-term and long-term borrowing (and in no particular order):
- Internal reserves
  - Public Works Loan Board (PWLB)
  - Local Authorities
  - European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria. The project cost must also be at least €10m)
  - Leasing
  - Capital market bond investors
  - Other commercial and not for profit sources
  - Any other bank or building society authorised to operate in the UK
  - UK public and private sector pension funds
  - UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
  - Any counterparty approved for investments
- 5.3.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

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

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

5.3.12 The Authority may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period as well as mitigate against the risk of rising borrowing interest rates.

5.3.13 **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.

#### **5.4 Authorised Limit for External Debt (The Authorised Limit)**

5.4.1 As a consequence of 5.3.1 to 5.3.13 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.

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

#### **5.5 The Operational Boundary**

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

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



## **5.6 Interest Rate Exposure**

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

## **5.7 Maturity Structure of Borrowing**

- 5.7.1 Whilst the periods of loans are dictated by the interest rates prevalent at the time, it is important to be mindful of the maturity profile of outstanding debt. Large 'peaks' are to be avoided, as it is possible for substantial loans to reach maturity at times when prevailing interest rates are high, and conversely, when interest rates are low, windows of opportunity may be lost.
- 5.7.2 As a result, it is necessary to determine both an upper and lower limit for borrowings which will mature in any one year.
- 5.7.3 Over the course of the medium term financial plan and future years, a number of high interest rate PWLB loans will mature resulting in a saving to the Authority as the interest rate on replacement loans are likely to be lower in comparison.
- 5.7.4 Historically, the Authority has favoured PWLB loans with a twenty five year loan maturity profile, but in the current climate of low interest rates (including Bank Rate); the Authority will also consider shorter dated loans (including local authority borrowing) to fund capital expenditure. Periods in excess of 25 years should also be considered in the event interest rates become advantageous.
- 5.7.5 The Authority has £30m of LOBO loans (Lender's Option Borrower's option) of which £20m of these can be "called" within 2020/21. A LOBO is called at its contract review date when the Lender is able to amend the interest rate on the loan at which point the Borrower can accept the new terms or reject and repay the loan. Any LOBOs called will be discussed with the Treasury Management Adviser prior to acceptance of any revised terms. Depending on the advice received, the Authority will consider, in the event of a repayment, the use of its cash investments balances or raising new debt to repay the loan.

## **5.8 Gross Debt and the Capital Financing Requirement**

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

## **5.9 Debt Rescheduling**

- 5.9.1 Due to the difference in the rates, it is unlikely that there will be many viable opportunities to reschedule loans (General Fund and the HRA) in the foreseeable future. However, should any such opportunities arise; any decision on debt rescheduling will be supported by the

appropriate report detailing the options and potential savings from the Authority's Treasury Management Adviser.

## 5.10 Policy on Borrowing In advance of Need

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

## 5.11 Annual Investment Strategy

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

5.11.2 **Current strategy (2019/20)** - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) money market funds and call accounts.

5.11.3 **The 2020/21 Investment Strategy** will continue with the lending approach as set out in the 2019/20 Strategy. Considerations will be given to pooled investments (property funds; equity funds; multi-asset funds) and non-treasury investments 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. Appendix 9 discusses pool funds in more detail.

5.11.4 This Strategy (2020/21), in line with the Welsh Government guidance, sets out the Authority's policies for (and in order of priority) the security, liquidity and yield of its investments. It will have regard to credit ratings and determine the periods for which funds may be prudently invested, whilst aiming to achieve, or better a target rate for investments of **0.50% (the DMO rate)**. Creditworthiness approach, investment periods and the rationale for the target rate are explained in **Appendix 3**. The Authority's objective when investing cash is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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

5.11.6 The Authority will continue to diversify into more secure and/or higher yielding asset classes during 2020/21 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.

- 5.11.7 In view of the ongoing volatility in the economy, and bank bail in risk, it is recommended that investments (both new and maturing) be placed with the most secure institutions as well as the most secure instruments (subject to liquidity requirements) as detailed in **Appendix 3**. Currently this would be AAA rated covered bonds, the Government (Debt Management Account Facility and Treasury Bills and Gilts), other Local Authorities and Public Bodies, such as Police and Fire Authorities, Repos, Registered Landlords, AAA Money Market Funds, and highly credit rated banks (subject to the creditworthiness limits referred to in the appendix 3). In light of Statutory and regulatory changes adopted by the Bank of England and Regulators with respect to Bail-In, it is recommended that the Authority moves away from unsecured lending (where possible and subject to liquidity requirements) to secured investments.
- 5.11.8 With respect to Repo agreements, Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral can be anyone or combination of the following securities:
- Index linked Gilts
  - Conventional Gilts
  - UK Treasury bills
  - DBV (Delivery By Value)
  - Corporate bonds
- 5.11.9 The Welsh Government maintains that the borrowing of monies for the purposes of investing or on-lending to benefit from differences in interest rates is unlawful. This Authority will not engage in such activity.
- 5.11.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any 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.
- 5.11.11 A loan or grant to another body for capital expenditure by that body is also deemed by the 2003 Regulations to be capital expenditure by the Authority. This Authority will only engage in such activity with the approval of Council.
- 5.11.12 In the event that any existing investment appears to be at risk of loss, the Authority will make proper revenue provision of an appropriate amount in accordance with the relevant Accounting Regulations.
- 5.11.13 At the end of the financial year, the Authority will prepare a report on its investment activity as part of its Annual Treasury Management Strategy Report. This report will be supported throughout the year by quarterly monitoring reports to the Policy & Resources Scrutiny Committee (the responsible body for scrutiny of Treasury Management activities as required by the Code), which will include a review of the current strategy. A report to Council will also be prepared on a half-yearly basis.
- 5.11.14 It is a fundamental requirement of the Code that officers engaged in Treasury Management follow all Treasury Management policies and procedures and all activities must comply with the Annual Strategy.

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

## **6. Policy on Use of Financial Derivatives**

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

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

## **7. Non-Treasury Investments**

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

## **8. Treasury Management Adviser**

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

## **9. Treasury Management Training**

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

- The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year.
- Officers will attend any courses/seminars that are appropriate especially where new regulations are to be discussed.
- Officers will update Members during the financial year by way of seminars/workshops/reports.
- Officers will utilise on line access to the CIPFA Treasury Forum and the CIPFA Technical

Information Service.

- Relevant staff is encouraged to study professional qualifications from CIPFA; the Association of Corporate Treasurers; and other relevant organisations.

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

## **10. PRUDENTIAL INDICATORS**

### **10.1 Capital Financing Requirement**

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

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

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

### **10.2 Prudential Indicators – “Prudence”**

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

### **10.3 Prudential Indicators – “Affordability” [Appendices 6 and 7]**

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

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

10.3.4 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of 3% inflation (1.5% inflation and 1.5% growth) applied to the rental income (using 2019/20 as a base), less an adjustment for estimated reduction in housing stock as a result of the “Right to Buy” sales.

### **10.4 Capital Expenditure and Funding**

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

10.4.2 The Revenue Support Grant (RSG) provided by the Welsh Government (WG) includes an element to off-set the costs of borrowing funds for capital purposes. WG has announced supported borrowings of £4.87m in respect of the 2020/21 financial year, together with General Capital Grant funding of £4.88m.

10.4.3 For calculation purposes, it has been assumed that the supporting borrowing element of funding support will remain static for 2021/22 and for 2022/23, whilst the capital grant has been revised down to 2018/19 level. HRA provisional values for the years 2020-2023 are based on the 2020/21 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 24<sup>th</sup> January 2017. MRP on supported borrowings will be charged at 2% over 50 years. MRP on unsupported borrowings will be charged at the PWLB annuity loan rate equivalent to the life of the asset. The MRP policy is detailed in **Appendix 8**.

## **12. Other Local Issues**

### **12.1 The Authority's Banker**

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

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

### **12.2 Policy on Apportioning Interest to the HRA**

12.2.1 On 1st April 2015 the HRA exited the subsidy mechanism by way of the HRA buyout process.

As a result, the Authority will operate a single consolidated pool of debt that will hold all debt (new and old loans), and annually recharge the HRA the interest payable on all loans using the average rate of interest as a recharge rate.

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

#### **12.4 IFRS 9 Classification**

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

### **13. 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 2020/21 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. LINKS TO STRATEGY**

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

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

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

## **15. WELL-BEING OF FUTURE GENERATIONS**

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

## **16. EQUALITIES IMPLICATIONS**

- 16.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in the Council's Strategic Equality Plan. There is no requirement for an Equalities Impact Assessment Questionnaire to be completed for this report.

## **17. FINANCIAL IMPLICATIONS**

- 17.1 The Treasury Management Strategy for 2020/21 as outlined in this report, if approved by Members, is likely to generate estimated interest of £600k on cash investments and a further £718k on pool fund investments, and this has been reflected in the budget report for 2020/21. Although the Authority has a new borrowing requirement of £32.3m in 2020/21 to fund the General Fund capital programme and replenish internal borrowing. The HRA will be borrowing up to £52.0m to fund the WHQS and Affordable Homes capital programmes.

## **18. PERSONNEL IMPLICATIONS**

- 18.1 There are no personnel implications.

## **19. CONSULTATION**

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

## **20. STATUTORY POWER**

- 20.1 Local Government Act 1972

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Stephen Harris - Interim Head of Business Improvement Services & Deputy S151 Officer  
Andrew Southcombe – Finance Manager, Corporate Finance  
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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 9	Strategic Pool Funds

## 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 November 2019 and subject to change)

	Arlingclose (Central case)
2020/21 Q1	0.75%
Q2	0.75%
Q3	0.75%
Q4	0.75%
2021/22	0.75%
2022/23	0.75%

### PWLB (Forecasts as at November 2019 and subject to change- Source Arlingclose (Upside case)

	Q1 – 2020/21	Q2 – 2020/21	Q3 – 2020/21	Q4 – 2020/21
5 Year	2.60%	2.65%	2.70%	2.75%
10 Year	2.85%	2.95%	2.95%	3.00%
25 year	3.30%	3.40%	3.40%	3.40%
50 Year	3.30%	3.40%	3.40%	3.40%

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

Budget Period	Investment Returns	Borrowing Rates (PWLB 50 Years)
2020/21	0.75%	3.50%
2021/22	0.75%	3.50%
2022/23	0.75%	4.00%
2023/24	1.00%	4.50%
2024/25	1.00%	5.00%

## 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 collateralised instruments). These instruments are considered to have a medium to long-term investment horizon; and therefore it is likely that the Authority will hold investment instruments with financial institutions that will not be exempt from the bank bail-in process such as fixed term deposits, call accounts and money market funds. The Authority will look to limit such holdings for the purpose of managing liquidity.

### Counterparty Criteria

The Authority considers, in order of priority, security, liquidity and yield when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a

sole feature in the Authority's assessment of counterparty credit risk. The intention of the strategy is to provide security of investment and minimisation of risk which will also enable diversification and thus avoidance of concentration risk.

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

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

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

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

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

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

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

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

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

Maximum Monetary and Investment Duration Limits						
Credit Rating (Long-Term)	Banks Unsecured	Banks Secured	Government	Local Authorities	Corporates	Registered Providers
UK Govt	-	-	£ Unlimited 50 years	-	-	-
AAA	£20m 5 years	£20m 20 years	£20m 50 years	£20m 50 years	£10m 20 years	£10m 20 years
AA+	£10m 5 years	£20m 10 years	£20m 25 years	£10m 25 years	£10m 10 years	£10m 10 years
AA	£10m 4 years	£20m 5 years	£20m 15 years	£10m 15 years	£10m 5 years	£10m 10 years
AA-	£10m 3 years	£20m 4 years	£20m 10 years	£10m 10 years	£10m 4 years	£10m 10 years
A+	£10m 2 years	£20m 3 years	£10m 5 years	£10m 5 years	£10m 3 years	£10m 5 years
A	£10m 13 months	£20m 2 years	£10m 5 years	£10m 5 years	£10m 2 years	£10m 5 years
A-	£10m 6 months	£20m 13 months	£10m 5 years	£10m 5 years	£10m 13 months	£10m 5 years
BBB+	£10m 100 days	£10m 6 months	£10m 2 years	£10m 2 years	£10m 6 months	£10m 2 years
BBB	£5m next day only	£5m next day only	-	£5m next day only	-	£5m next day only
None Rated	£1m 6 months	-	£5m 25 years		-	£5m 5 years
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. Appendix 9 sets out the Authority's approach to investing in pool funds.

**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 2020/21 of at least **0.50%**.

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

## **Appendix 4 - Specified and Non-Specified Investments**

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

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

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

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

	Specified	Non-Specified
<b>Government</b>		
Debt Management Account Deposit Facility	✓	✗
Gilts (UK Government)	✓	✓
Treasury Bills (T-Bills- UK Government)	✓	✗
Bonds issued by AAA rated Multilateral Development Banks	✓	✓
<b>Registered Providers (Housing Associations)</b>		
Registered Providers (Housing Associations)	✓	✓
<b>Corporates</b>		
Corporate Bonds (including Floating Rate Notes and Commercial Paper)	✓	✓
<b>Local Authorities</b>		
Term deposits with other UK local authorities	✓	✓
Local Authority Bills / Bonds	✓	✓
<b>Banks- Secured</b>		
Repurchase Agreements (Repos)- Banks & Building Societies	✓	✓
Covered Bonds	✓	✓
Other Collateralised arrangements	✓	✓
<b>Banks- Unsecured</b>		
Term deposits with banks and building societies	✓	✗
Certificates of deposit with banks and building societies	✓	✗
AAA-Rated Money Market Funds	✓	✗
Authority's Banker	✓	✗
<b>Pooled Funds (Variable Net Asset Valuation)</b>		
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 Finance & S151 Officer (as Chief Financial Officer) after consultation with the Finance Manager for Corporate Finance.

### **C. General Authorisations**

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

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

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

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

## Appendix 5 Treasury Management Strategy Indicators 2020/21-2022/23

	Budget 2020-21	Budget 2021-22	Budget 2022-23
	£000	£000	£000
<b>Authorised limit for external debt -</b>			
Borrowing	371,944	366,533	361,773
Other long term liabilities	28,426	26,388	24,254
<b>Total</b>	<b>400,370</b>	<b>392,921</b>	<b>386,027</b>
<b>Operational boundary for external debt -</b>			
Borrowing	297,555	293,227	289,418
Other long term liabilities	28,426	26,388	24,254
<b>Total</b>	<b>325,982</b>	<b>319,614</b>	<b>313,672</b>
Capital Financing Requirement	434,387	456,271	452,497
<b>Upper limits for interest rate exposure</b>			
Principal outstanding on borrowing	297,555	293,227	289,418
Principal outstanding on investments	100,000	90,000	80,000
<b>Net principal outstanding</b>	<b>197,555</b>	<b>203,227</b>	<b>209,418</b>
Fixed rate limit – 100%	197,555	203,227	209,418
Variable rate limit – 30%	59,267	60,968	62,825
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 2020-21	Budget 2021-22	Budget 2022-23
	£000	£000	£000
Outstanding Borrowing	297,555	293,227	289,418
Other long term liabilities	28,426	26,388	24,254
<b>Gross Debt</b>	<b>325,982</b>	<b>319,614</b>	<b>313,672</b>
Less investments	100,000	90,000	80,000
<b>Net Debt</b>	<b>225,982</b>	<b>229,614</b>	<b>233,672</b>

Gross and The CFR	Budget 2020-21	Budget 2021-22	Budget 2022-23
	£000	£000	£000
Gross Debt	325,982	319,614	313,672
CFR	434,387	456,271	452,497

## Appendix 6 - Prudential Indicators - Capital Finance

Ratio of Financing costs to net revenue stream	Budget 2020-21	Budget 2021-22	Budget 2022-23
<b>General Fund</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Principal repayments	2,548	2,956	3,080
Interest costs	8,829	9,080	8,969
Debt Management costs	49	42	41
Rescheduling discount			
Investment income	(1,518)	(1,443)	(1,368)
Interest applied to internal balances	813	812	825
<b>Total General Fund</b>	<b>10,720</b>	<b>11,447</b>	<b>11,548</b>
Net revenue stream	<b>356,621</b>	<b>359,933</b>	<b>363,393</b>
<b>Total as percentage of net revenue stream</b>	<b>3.01%</b>	<b>3.18%</b>	<b>3.18%</b>
<b>Housing Revenue Account</b>			
Principal repayments	2,481	2,971	3,412
Interest costs	6,301	6,942	7,121
Rescheduling discount			
Debt Management costs	33	34	37
<b>Total HRA</b>	<b>8,815</b>	<b>9,948</b>	<b>10,570</b>
Net revenue stream	<b>50,515</b>	<b>51,537</b>	<b>52,568</b>
<b>Total as percentage of net revenue stream</b>	<b>17.45%</b>	<b>19.30%</b>	<b>20.11%</b>

Capital financing requirement [end of year position]	Budget 2020-21	Budget 2021-22	Budget 2022-23
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Fund	285,817	285,671	285,310
Housing Revenue Account	148,571	170,599	167,187
<b>Total Authority</b>	<b>434,387</b>	<b>456,271</b>	<b>452,497</b>

## Appendix 7 - Capital Expenditure and Funding

	Budget 2020-21	Budget 2021-22	Budget 2022-23
	£000	£000	£000
<b>Expenditure</b>			
Council Fund	11,363	9,846	9,726
Housing Revenue Account	36,000	45,000	20,000
<b>Total</b>	<b>47,363</b>	<b>54,846</b>	<b>29,726</b>
<b>Funding</b>			
Surplus/ (Deficit) Balance b/f	-	454	199
Borrowing - Supported (GF)	4,865	4,865	4,865
General Capital Grant - WG	4,878	3,020	3,020
Internal Borrowing	-	-	-
RCCO Budget	128	128	128
Capital underspends frm previous years	306	-	-
General Fund working balances	-	-	-
One off funding- MRP Review	1,640	1,578	1,514
RCCO- (HRA)	16,650	12,650	12,650
Unsupported Borrowing HRA- WHQS	7,000	-	-
Unsupported Borrowing HRA- Affordable Housing	5,000	25,000	-
Major Repairs Allowance (HRA)	7,350	7,350	7,350
<b>Total</b>	<b>47,817</b>	<b>55,045</b>	<b>29,726</b>
<b>Surplus C/f</b>	<b>454</b>	<b>199</b>	<b>-</b>



## **Appendix 8 MRP 2020/21 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 2020/21 is stated below.

### **Supported Borrowings**

MRP on historic debt liability as at the 31<sup>st</sup> 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 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.
- 4 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.
- 5 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 2020/21 that is financed by debt will not be subject to a MRP charge until 2021/22.

## **Appendix 9 - Strategic Pool Funds**

The UK Government's austerity programme has led to unprecedented cuts in the level of funding that local authorities receive annually to fund services. Austerity has affected the Settlement that Welsh Government receive from Westminster, which is passed onto Welsh local authorities. At a time of increasing pressure on budgets many local authorities are reviewing their treasury management investment strategy and seeking to diversify into strategic funds to enhance their treasury management returns.

Strategic investment funds (pool funds) offer investors the opportunity to buy into asset classes that would otherwise be difficult to purchase, as well as diversify risk and enhance returns. They are managed externally by a fund manager. Such funds invest in a variety of asset classes such as property, equities, bonds, currencies, and commodities. The performance and riskiness of such funds can vary, as does the investment horizon (i.e. the length of time the cash is invested). Typically such funds (non-government investment funds) have generated returns in excess of the UK Government's inflation target of 2.0%. Strategic funds can also have a mixture of asset classes. These are known as Diversified Income Funds. Property funds typically hold investment properties located all over the United Kingdom.

As noted throughout this report, the outlook for interest rates and subsequently investment returns is bleak due to the impact of political uncertainty and global economic downturn. This is likely to result in investment returns on traditional treasury investments (bonds; cash deposits) remaining low or potentially falling. Strategic investment funds would enable the Authority to diversify into other asset classes that yield higher returns.

### **Investment Proposal and Limits**

It is proposed that the Authority invests in 2020/21 a minimum of £20m but no more than £30m into strategic pool funds, for a minimum period of 5 years. The investment should be further split into the following categories in order to mitigate volatility (based on a £20m investment):

- Property fund: £10m
- Equity fund: £5m
- Multi-asset or Bonds or Diversified Income Fund: £5m

As per Appendix 4, a £20m investment limit will apply to each fund manager. Investment returns will need to be equal to or greater than inflation as measured by the Consumer Price Index (CPI).

In a deteriorating market the Authority should seek to exit the pool fund whilst minimising financial losses.

### **Risks**

Strategic investment funds, like any other investment, are considered to be risky investments. In general, the risks associated with strategic investment funds are:-

- A lack of a credit rating. Most, if not all, funds are not rated by the main credit rating agencies and require due diligence to be undertaken prior to making the initial investment. The Authority will seek advice from its Treasury Management Advisor and undertake a due diligence to find a suitable investment fund.

- Duration. Investments are tied up for a minimum three to five year investment horizon. Any attempt to recall the investment back prematurely would result in additional costs or a loss in the nominal investment as the underlying assets would need to be sold to release the cash proceeds.
- Fund in “lock down”- There have been a number of circumstances whereby investors have been prevented from accessing their funds. Funds adopt this approach when there is a high demand from investors to suddenly withdraw their money on the back of an event (negative publicity, misappropriation, bad management or a political event to name a few). Under such circumstances the fund manager needs to sell assets from the fund to finance the recall of investor’s cash. For certain asset categories there is no liquid market and it takes time to find a buyer (for example commercial property). As a result the fund goes into “lock down” mode and ceases to accept new investments.
- During adverse market conditions certain asset categories do not sell or are sold at low prices resulting in a loss for the investor. The property market is considered to be an illiquid market, in the context of other asset classes, and takes time for a sale to complete. In comparison bond and equity markets are very liquid and the risk would remain on the price side.
- Lack of transparency. Investing in external funds can often result in a lack of transparency and control as decisions are made by others outside of the Authority. Whilst there are strict regulatory rules that govern investment funds, the terms, conditions and objectives are disclosed in the fund prospectus as approved by the parent company. As part of the due diligence exercise, the Authority will request the fund manager to disclose monthly / quarterly investment holdings to mitigate the risk stemming from a lack of transparency.

### **Accounting for Pooled Funds**

The introduction of International Financial Reporting Standard 9 (financial instruments) resulted in changes in the way in which financial assets are accounted for. More specifically, gains and losses on strategic investment funds are charged directly to the revenue account, resulting in an impact on the bottom line (working balances). In England the Ministry of Housing, Communities and Local Government have issued a capital directive to mitigate the impact of gains or losses to an unusable reserve for a period of time (five years). The Welsh Government is yet to adopt a similar approach. The gain or loss would only impact the bottom line upon realisation (i.e. whenever the cash is withdrawn from the fund), and would be dictated by market prices at the time of withdrawal.

Under IFRS 9 pooled funds are categorised as Equity Instruments as the investor has no contractual right to receive back any particular sum of money. The cash flows from a pooled fund are not solely principal and interest. Consequently, pool funds are accounted for at fair value through profit and loss (FVPL) unless “elected”.

IFRS 9 includes an option to irrevocably elect to account for equity instruments at fair value through other comprehensive income (FVOCI). The main difference is that Under FVPL gains and losses from changes in fair value are charged to the revenue account, thus impacting on working balances. Under FVOCI accounting gains and losses from changes in fair value are taken to the Financial Instruments Revaluation Reserve (FIRR). Upon derecognition, the balance in the FIRR is transferred to the revenue account via the Movement in Reserves Statement. There is no impact on working balances.

An election to FVOCI may only be made on initial recognition of an investment (or upon transition to IFRS 9 on 1st April 2018 if later), and it is irrevocable.

The Authority will elect all strategic pool funds to fair value through other comprehensive income (FVOCI) upon opening the fund in order to mitigate any fair value gains or losses against working balances at 31 March 2021.

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## **POLICY AND RESOURCES SCRUTINY COMMITTEE – 14TH JANUARY 2020**

**SUBJECT:           CONSULTATION AND ENGAGEMENT FRAMEWORK  
2020-2025**

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

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### **1.     PURPOSE OF REPORT**

- 1.1. To present a draft Consultation and Engagement Framework which sets out an approach to further enhance consultation and engagement across Caerphilly county borough communities.
- 1.2. To highlight the continued importance of effective consultation and engagement and the clear strategic link to the decision making process.
- 1.3. To seek comment and endorsement of the draft Framework from Policy and Resources Scrutiny Committee prior to it being considered by Cabinet.

### **2.     SUMMARY**

- 2.1 The *#TeamCaerphilly – Better Together* Transformation Strategy, endorsed by Cabinet in June 2019 highlights the importance of engaging and working with our communities as one of its primary themes.
- 2.2. The council is committed to ensuring high quality, citizen focussed services, and in future proofing these services, recognises the need to ensure effective engagement is central to the decision making process – involving residents in the design of local services and the things that affect them.
- 2.3. In addition, the council is focussing on further strengthening the relationship between it and the community – residents, businesses, voluntary and community groups. Caerphilly county borough has a vibrant and engaged voluntary and community sector, which offers significant opportunity to maximise community participation.
- 2.4. Through the *#TeamCaerphilly - Better Together* transformation journey, the council must also continue to be open and honest with our communities in order to manage expectations; communities themselves will need to play a key part in helping shape the transformation process.
- 2.5. The draft Consultation and Engagement Framework 2020-2025 sets out our

approach to further enhance consultation and engagement across Caerphilly county borough communities. It highlights principles and standards for how the council will engage – to build clear, shared expectations and a two way ongoing dialogue that enables a focus on what can be achieved. The draft Framework is attached at Appendix 1.

### **3. RECOMMENDATIONS**

- 3.1 That Policy and Resources Scrutiny Committee consider and endorse the principles and approach as outlined in the draft Consultation and Engagement Framework 2020-2025 prior to it being considered by Cabinet.

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1. To ensure the council has a robust Consultation and Engagement Framework in place which sets out the principles and standards for further enhancing engagement with Caerphilly county borough communities.

### **5. THE REPORT**

- 5.1. The *#TeamCaerphilly – Better Together* Transformation Strategy, endorsed by Cabinet in June 2019 highlights the importance of engaging and working with our communities as one of its primary themes.
- 5.2. *#TeamCaerphilly – Better Together* is about reshaping the council for the future, emphasising that things must be done differently in the future in order to protect the services that are required and valued.
- 5.3. Through this, the council is committed to ensuring high quality, citizen focussed services, and in future proofing these services, recognises the need to ensure effective engagement as central to the decision making process – involving residents in the design of local services and the things that affect them.
- 5.4. In addition, the council is focussing on further strengthening the relationship between it and our communities – residents, businesses, voluntary and community groups. Caerphilly county borough has a vibrant and engaged voluntary and community sector, which offers significant opportunity to maximise community participation.
- 5.5. Through the *#TeamCaerphilly - Better Together* transformation journey, the council must also continue to be open and honest with our communities in order to manage expectations; communities themselves will need to play a key part in helping shape the transformation process.
- 5.6. The draft Consultation and Engagement Framework 2020-2025 sets out an approach to further enhance consultation and engagement across Caerphilly county borough communities. It highlights principles and standards for how the council will engage – to build clear, shared expectations and a two way ongoing dialogue that enables a focus on what can be achieved.
- 5.7. It is designed to support council staff, councillors and residents, communities and other stakeholders and builds upon established principles to further extend the levels of community involvement in working to achieve our shared aims.



5.8. The Framework is intended to:

- Highlight the continued importance of effective consultation and engagement and the clear strategic link to the decision making process
- Demonstrate the key role that engaged, empowered communities have in supporting the future-proofing of council services
- Provide a clear definition of engagement and explain the 'Spectrum of Engagement'
- Outline the principles and standards that underpin meaningful engagement and consultation to enable to consistent, transparent and high quality approach to the planning and undertaking of community engagement
- Signpost to further advice and guidance on how to carry out consultation and engagement in line with the principles and standards outlined.

5.9. Effective engagement is fundamental to the council's transformation journey, and it will be through the ongoing process of dialogue between the council and its communities through '*The Caerphilly Conversation*' that, it is anticipated this will be achieved.

5.10. The Consultation and Engagement Framework aims to set out a clear structure for engagement that encourages a partnership of collaboration between communities and the council, where the council can, over time, enable communities to do a little more for themselves.

5.11. Through this approach, it is hoped to collectively support:

- Empowering local residents to have greater influence over the issues that affect them
- Strengthening the role of communities in how we live, work and visit Caerphilly county borough
- Helping understand the needs of communities which, in turn, helps to ensure the services the council delivers meet those needs, and that available resources are used effectively and in line with agreed priorities
- Ensuring people are involved in the democratic process and enable communities to have greater input into issues that affect them
- Communities to take action by helping them identify needs and support them in developing community-led solutions
- Meeting statutory duties relating to consultation and engagement

5.12. The Framework highlights the importance of being clear on what level of engagement is appropriate in a particular circumstance, and to plan and implement engagement processes carefully based on that circumstance. It also gives clarity on engaging with particular audiences, the principles of engagement and the legal context behind consultation.

5.13. An internal guidance document is also in development to support this strategic framework, and offers further advice and guidance to council staff, including details on the wide range of tools and methodology in order to carry out meaningful consultation and engagement.

## 6. **ASSUMPTIONS**

6.1. There were no assumptions made in the preparation of this report.

## **7. LINKS TO RELEVANT COUNCIL POLICIES**

### **7.1. CCBC Communications and Engagement Strategy 2019-2022**

In January 2019, the council's Cabinet endorsed this strategy, which outlines the council's approach to ensuring communications and engagement activity is fit for purpose and helps to achieve the organisation's vision. It also defines how the council will listen and respond to what audiences are saying in return.

This Consultation and Engagement Framework will help facilitate delivery of, in particular, one of the key objectives within this strategy – to 'inform and engage with residents, businesses, visitors, partners and other stakeholders about the council's aims and key priorities, the services it provides and how they can get involved in shaping decisions'.

### **7.2. #TeamCaerphilly – Better Together Transformation Strategy**

The development of a strategic Consultation and Engagement Framework to support empowered communities in embracing the transformation journey is a key action area in the #TeamCaerphilly Strategic Action Plan – action number 17.

### **7.3. Corporate Plan 2018-2023**

The Consultation and Engagement Framework, would, through demonstrating the continued importance of effective and meaningful consultation and engagement, contribute towards each of the council's six Corporate Wellbeing Objectives.

### **7.4. CCBC Strategic Equality Plan 2016-2020**

The Consultation and Engagement Framework would support several key areas of the Strategic Equality Plan 2016-2020, not least the objective '*to ensure that the consequences of all new and updated policies and initiatives on specific groups are considered during the council's consultation and decision making processes*'.

## **8. WELL-BEING OF FUTURE GENERATIONS**

8.1. The Consultation and Engagement Framework will assist the authority in its duties as a public body under the Well-being of Future Generations (Wales) Act 2015 to contribute to the national well-being goals:

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

8.2. Delivery of the Consultation and Engagement Framework as part of the #TeamCaerphilly – Better Together transformation strategy is dependent on using the sustainable development principle within the new operating model:

**Long term** – The framework will support the authority to meet its long-term aim to secure sustainable services.

**Prevention** – Helping understand the needs of communities through this framework and approach to consultation/engagement will ensure the services the council delivers meets those needs, and that available resources are used effectively and in line with agreed priorities

**Integration** – Engagement with communities will support a shared understanding of community well-being; the framework and wider transformation strategy provides clear direction for how we expect our communities to play their part

**Collaboration** – The framework highlights the importance of strong, collaborative relationships that engaged, empowered communities have in supporting the future-proofing of council services

**Involvement** – The Framework has involvement right at its heart – supporting the involvement of engagement communities, partners and other stakeholders.

## 9. EQUALITIES IMPLICATIONS

An EIA screening has been completed in accordance with the council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified; therefore a full EIA has not been carried out.

## 10. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

## 11. PERSONNEL IMPLICATIONS

There are no personnel implications associated with the report

## 12. CONSULTATIONS

This report has been sent to the consultees listed below and all comments received are reflected in this report.

## 13. STATUTORY POWER

Equality Act 2010 and Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011. One of the specific duties covers matters of engagement.

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Consultees: Corporate Management Team  
Cllr Philippa Marsden – Leader of the Council  
Cllr Colin Gordon – Cabinet Member for Corporate Services  
Cllr James Pritchard – Chair, Policy and Resources Scrutiny Committee

Cllr Gez Kirby – Vice Chair, Policy and Resources Scrutiny Committee  
Stephen Harris – Interim Head of Business Improvement Services and Acting  
S151 Officer  
Kathryn Peters – Corporate Policy Manager  
Anwen Cullinane – Senior Policy Officer (Equalities, Welsh Language and  
Consultation)  
Stephen Pugh – Corporate Communications Manager

Appendices:

Appendix 1 Draft Consultation and Engagement Framework 2020-2025

DRAFT

TeamCaerphilly

BETTER TOGETHER

**Consultation and Engagement Framework**  
2020-2025



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## Introduction

Through *TeamCaerphilly - Better Together*, the council is committed to ensuring high quality, citizen focussed services for the communities that comprise our county borough. In future-proofing public services, we recognise the need to ensure effective engagement is central to our decision making - involving residents in the design of local services and the things that affect them.

In addition, we are focussing on further strengthening the relationship between the council and the community - residents,

businesses, voluntary and community groups. Caerphilly county borough has a vibrant and engaged voluntary and community sector, which offers significant opportunity to maximise community participation.

This framework sets out an approach for a common understanding to further improve engagement. It sets principles and standards for how the council will engage to build clear, shared expectations and two way engagement that enables a focus on what can be achieved.



## Who is this framework for?

This framework is for everyone who has a role to play and wants to get involved in making Caerphilly county borough a more informed and empowered place to live. It has been designed to support:

### Staff by ensuring that they...

- know how to carry out robust, effective and meaningful consultation and engagement
- adopt a consistent approach to the consultation and engagement process
- recognise diversity within our communities and incorporate this into the planning of engagement activities.



### Councillors by...

- raising awareness of the national principles that govern how we consult and engage with our residents and stakeholders and
- ensuring they understand the need to effectively use the outcomes of community engagement to improve the nature of decision making and help strengthen the relationship that the council has with the people it serves.

### Residents, communities and other stakeholders by...

- demonstrating our approach to engagement
- letting them know the standards we are working to and
- what to expect from us which will enable a greater sense of ownership, giving people more input into the decisions that affect their lives.



## Purpose

The framework:

- Highlights the importance of effective consultation and engagement and the clear strategic link to the decision making process
- Demonstrates the key role that engaged, empowered communities have in supporting the future-proofing public services
- Provides a clear definition of engagement and outlines the spectrum of engagement
- Outlines the principles and standards that underpin meaningful engagement and consultation to enable a consistent, transparent and high quality approach to the planning and undertaking of community engagement
- Signposts to further advice and guidance on how to carry out consultation and engagement in line with the principles and standards outlined



### LINKS TO STRATEGY

The Consultation and Engagement Framework 2020-2025 has direct links to a number of key strategic documents:

### Communications and Engagement Strategy 2019-2022

In January 2019, the Council's Cabinet endorsed a Communications and Engagement Strategy 2019-2022, that outlines the approach we will take to ensure communications and engagement activity is fit for purpose and helps to achieve our vision.

It also defines how we as an organisation will listen and respond to what our audience is telling us in return.

The Communications and Engagement Strategy states that effective consultation and engagement promotes two way communications, which ensures residents are able to influence the way we shape and deliver our services.

## REACH

We will use a wide range of channels to communicate with our audiences. This includes social, digital and traditional methods.

## ENGAGE

We will ensure that our communication is timely, relevant, informative and jargon free. We want to create engaging content for all our audiences.

## CONVERT

We will work hard to change behaviours and attitudes by providing relevant information so that our audiences are able to make informed and considered choices.

This Consultation and Engagement Framework will complement and help facilitate delivering one of the key objectives highlighted in the Communications and Engagement Strategy to:

*"Inform and engage with residents, businesses, visitors, partners and other stakeholders about the council's aims and key priorities, the services it provides and how they can get involved in shaping decisions."*



**TeamCaerphilly - Better Together**  
(Transformation Strategy)

The *TeamCaerphilly* transformation programme is about reshaping the Council for the future and doing things differently to protect the services that are required and valued. A new “whole authority” operating model was adopted by the Council in June 2019 to ensure a resilient Caerphilly County Borough for the future with communication and engagement playing a fundamental role within the transformation agenda.

The *TeamCaerphilly - Better Together* purpose is:

*“To create capacity and foresight to develop solutions to some of the County Borough’s biggest challenges, ensuring the Council understands and responds to the changing needs and priorities of our communities”.*

Effective community engagement is, in itself, a strategic component in the *TeamCaerphilly - Better Together* operating model. One of the outcomes of this new approach will be to have strong working relationships with our communities and partners, to maximise the use of our collective resources to ensure a resilient county borough for the future.

A key action emerging from this element of the strategy was to develop a Consultation and Engagement Framework to support empowered communities to come on this journey with us.

This Consultation and Engagement Framework, therefore, has been developed to facilitate more effective consultation and engagement with communities as we move forward in reshaping Caerphilly County Borough Council. Effective engagement will enable us to understand the needs of our communities as we make difficult decisions and consider how we will deliver services differently in the future.



**Empowered Communities:** Supporting Community Capacity and Harnessing Social Capital

The role of empowered, resilient communities in the transformation journey will be fundamental. The journey is an opportunity to embrace change and developing council services with the support of our communities, for the benefit of all.

**FURTHER READING**

[Link to Communications and Engagement Strategy 2019-2022](#)

[TeamCaerphilly - Better Together \(Caerphilly CBC Transformation Strategy\)](#)

[www.caerphilly.gov.uk/tc-eng/](http://www.caerphilly.gov.uk/tc-eng/)



## What do we mean by Engagement?

The words 'community', 'public' or 'citizen' engagement are used interchangeably by many, often to mean the same thing. Caerphilly Council has previously adopted the following definition of engagement:

***“Engagement means anything that we do that informs citizens about what we do or involves citizens in the Council’s decision making process.”***

Effective communication and engagement is fundamental to the council’s transformation journey, and it is through the ongoing process of dialogue between the Council and our communities through ‘The Caerphilly Conversation’ that we will aim to achieve this.

Through this document we aim to set out a clear structure for engagement that encourages a partnership of collaboration between communities and the council, where the council can enable communities to do a little more for themselves.

In enabling this process, we consider the following headline principles to be of particular significance:

- We will listen and understand
- Caerphilly county borough people will help inform and shape the decisions we make - and in turn we will keep people informed
- We will be inclusive and act with purpose
- We will make the most of what already exists in our communities

Through this agreed approach we will:

- Empower local residents to have greater influence over the issues that affect them
- Increase and strengthen the role of communities in how we live, work and visit Caerphilly county borough
- Help us to understand the needs of our communities which in turn, helps to ensure that the services we deliver meet

those needs and that available resources are used effectively and in line with agreed priorities

- Ensure people are involved in the democratic process and enable communities to have greater input on issues that affect them
- Support communities to take action by helping them identify needs and support them in developing community-led solutions
- Meet our statutory duties

### Designing engagement: do I need to engage, consult or do something else?

To ensure that engagement is carried out in a systematic and consistent way, it is important to be clear on what level of engagement is appropriate in a particular circumstance and to plan and implement engagement processes carefully based on that circumstance.

At times, engagement may simply be about informing, while at other times engagement will involve a combination of information provision and gathering, consultation, feedback and evaluation that will feed into the decision making process at an appropriate stage. Recognising that different levels of engagement are appropriate in different circumstances, careful consideration should be given to the approach adopted in relation to:

- the purpose and intended outcome of the engagement
- the issues being addressed
- the stage in the project planning cycle at which engagement takes place
- the stakeholders involved/those we are engaging with - recognising that different groups and individuals have different needs and preferences

The following link provides guidance in determining whether you need to consult, engage or do something else:

[www.local.gov.uk/sites/default/files/documents/Do%20I%20need%20to%20consult.pdf](http://www.local.gov.uk/sites/default/files/documents/Do%20I%20need%20to%20consult.pdf)

## The Spectrum of Engagement

The International Association of Public Participation Spectrum outlines five levels of engagement across a continuum that describes an increasing degree of engagement, participation and influence in the engagement process. The spectrum can be used to help determine the level of influence required and sets the commitment

to ensure transparency. It can also provide a starting point in determining the most appropriate methods of engagement.

The diagram below outlines five levels of engagement and identifies increasing levels of public impact and levels of community influence over decisions at each level, our goals and promises are set out.

**Increasing the level of public impact**   
**Level of community influence over decisions** 

	Inform	Consult	Involve	Collaborate	Empower
GOAL	To provide the public with balanced and objective information to assist them in understanding the problems, alternatives, opportunities and/or solutions	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision-making and/or devolved budgets in the hands of the public.
PROMISE	We will keep you informed.	We will keep you informed, hasten to acknowledge concerns and provide feedback on how public input influenced the decision	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision	We will look to you for direct advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

© 2004 International Association for Public Participation



## Who do we engage and consult with?

When we talk about engaging our communities and stakeholders we make a commitment to engage, as appropriate, with:

- Residents - people from every part of the county borough and from every community and of all ages, making a particular effort to encourage those currently not engaged/seldom heard including:
  - community groups and clubs including those on our various panels, community, voluntary and special interest groups
  - users of specific Council services
  - vulnerable groups and those with protected characteristics as defined within the Equality Act (2010) and the Public Sector Equality Duty (Wales)
  - children and young people including those on the Youth and Junior Forums
- Employees of the Council
- Business owners
- Those who visit, work or participate in activities within the county borough
- Our democratically elected representatives
- Town and Community Councils
- Local Assembly Members and Members of Parliament
- Partner organisations
- Business forums
- Welsh Commissioners (Children's, Welsh Language, Older Persons and Future Generations)
- Specific subject forums
- Any other body or group with an interest in the work of the authority and the future well-being of the area



## Principles of Engagement

The Council operates within the Welsh Government Citizen-Centred Governance Principles, putting the citizen at the heart and focusing on their needs and experiences.

In engaging with residents and stakeholders, it is important to have principles that guide the engagement process so that it is undertaken in a meaningful and transparent manner.

### National Principles for Public Engagement in Wales

In 2011, Caerphilly County Borough Council adopted the **National Principles for Public Engagement in Wales** as a guiding document for all of our engagement activities (Appendix 1). These principles are supported by 'The Evaluation Toolkit - Evaluating engagement practice against the National Principles for Public Engagement in Wales' which outlines a four stage participatory process to evaluate engagement activities in relation to the National Principles.



### National Standards for Children and Young People's Participation

The Council also works to fulfil the requirements of the **National Standards for Children and Young People's Participation** (Appendix 2).

## The Consultation Institute Charter

The Consultation Institute provides a charter, outlining seven key aspects of good consultation. These seven components should steer decision-making processes before, during and after a consultation process.

They can also act as a guide for other forms of engagement.

- 1. Integrity:** Intentions must be honest, and with a genuine willingness to listen and be influenced.
- 2. Visibility:** There should be a real effort to make all of those who have a right to participate aware of what is going on.
- 3. Accessibility:** There needs to be reasonable access, using appropriate methods and channels and catering for hard-to-reach groups.
- 4. Transparency:** Things submitted need to be made public and data disclosed, unless there's a specific reason to make them exempt.
- 5. Disclosure:** All relevant material and context should be disclosed by the council, and in return residents should disclose the full range of local opinion.
- 6. Fairness:** Assessments and interpretations of consultations need to be objective. Decisions need to be representative of the spread of opinion.
- 7. Publication:** Participants have a right to receive feedback on the final output, and on the eventual outcome of the process.

#### FURTHER READING

[www.local.gov.uk/sites/default/files/documents/The%20TCI%20Charter\\_2.pdf](http://www.local.gov.uk/sites/default/files/documents/The%20TCI%20Charter_2.pdf)





## The Legal Context

The Consultation Institute identifies two areas to focus on when deciding if you need to consult - statutory provisions and the doctrine of legitimate expectation (common law).

### Statutory provisions

Statutory provisions are legal requirements which state that a consultation must occur. They exist in several key areas - health, environment and equalities.

**Equality:** The Equality Act 2010 states that public bodies must have “due regard” to a variety of Equalities objectives (Equality Act 2010, Section 149) and consequently Equality Impact Assessments must be carried out to demonstrate that decision-makers are fully aware of the impact that changes may have on stakeholders. The concept of “due regard” was reinforced in 2012 during the review of the Public Sector Equality Duty which...

*“requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities”.*

### Doctrine of legitimate expectation (common law)

Essentially, where people have come to legitimately expect a process of consultation, for example, with local authority budget cuts, there are grounds for a judicial review should a public consultation not take place. Similarly, a consultation must be conducted properly should the choice be taken to embark on one (whether a legal requirement exists for it or not). This is part of ensuring that the consultation process remains a fair one.

This is rapidly becoming the most important aspect of the law of consultation. The legitimate expectation applies:

- when there has been a clear promise of consultation
- where official guidance or policies imply a promise to act in a particular way
- where there is a withdrawal of a benefit with significant impacts to be considered
- where the nature of the relationship would create unfairness if there were to be inadequate consultation.





## Gunning Principles

If it has been determined that consultation (as opposed to some other kind of engagement) is required, it is important that the following principles are adhered to ensure legal compliance.

**Proposals are still at a formative stage.**  
A final decision has not yet been made, or predetermined, by the decision makers.

**There is sufficient information to give ‘intelligent consideration’.**  
The information provided must relate to the consultation and must be available, accessible, and easily interpretable for consultees to provide an informed response.

**There is adequate time for consideration and response.**

There must be sufficient opportunity for consultees to participate in the consultation. There is no set timeframe for consultation, despite the widely accepted twelve-week consultation period, as the length of time given for consultee to respond can vary depending on the subject and extent of impact of the consultation.

**‘Conscientious consideration’ must be given to the consultation responses before a decision is made.**

Decision-makers should be able to provide evidence that they took consultation responses into account.



### FURTHER READING

[www.local.gov.uk/sites/default/files/documents/The%20Gunning%20Principles.pdf](http://www.local.gov.uk/sites/default/files/documents/The%20Gunning%20Principles.pdf)

The Wales Practice Hub also gives bite sized information on the Gunning Principles and Equality Impact Assessments.

[www.eiapractice.wales.nhs.uk/home](http://www.eiapractice.wales.nhs.uk/home)



## The Involvement and Collaboration Principles: Well-being of Future Generations (Wales) Act 2015

In terms of the wider context, this Framework also supports the Council in meeting its duty under the **Well-being of Future Generations (Wales) Act 2015**. The Act is about improving the social, economic, environmental and cultural well-being of Wales and requires public bodies in Wales to think about the long-term impact of their decisions, to work better with people, communities and each other and to prevent persistent problems such as poverty, health inequalities and climate change.

The Act puts in place a sustainable development duty which outlines how organisations should go about meeting their responsibilities under the Act. There are five ways of working that public bodies need to think about to show that they have applied the sustainable development principles.

Key in the context of this Consultation and Engagement Framework are 2 of these, the 'Involvement' and 'Collaboration' principles:

*“The importance of involving people with an interest in achieving the well-being goals and ensuring that those people reflect the diversity of the area which the body serves.”*

*“Collaboration with any other person that could help the body to meet its objectives.”*







### The Equality Act 2010 and Wales specific duties

The Equality Act is supplemented by a specific set of Welsh duties, one of which is to involve people who it considers to be representative of those with different protected characteristics who have an interest in the way in which the authority carries out its functions.

Engagement will help improve outcomes, for example by:

- identifying particular needs, patterns of disadvantage and poor relations between groups
- understanding the reasons for disadvantage, low participation rates and poor relations
- designing initiatives to meet needs and overcome barriers
- determining priorities
- analysing the impact of initiatives on people with protected characteristics
- monitoring and evaluating initiatives, policies and programmes.

#### FURTHER READING

[futuregenerations.wales/wp-content/uploads/2017/02/150623-guide-to-the-fg-act-en.pdf](https://futuregenerations.wales/wp-content/uploads/2017/02/150623-guide-to-the-fg-act-en.pdf)  
[www.equalityhumanrights.com/en/publication-download/engagement-and-equality-duty-guide-listed-public-authorities-wales](http://www.equalityhumanrights.com/en/publication-download/engagement-and-equality-duty-guide-listed-public-authorities-wales)

## Appendix 1: National Principles for Public Engagement in Wales

### 1 Engagement is effectively designed to make a difference

Engagement gives a real chance to influence policy, service design and delivery from an early stage.

### 2 Encourage and enable everyone affected to be involved, if they so choose

The people affected by an issue or change are included in opportunities to engage as an individual or as part of a group or community, with their views both respected and valued.

### 3 Engagement is planned and delivered in a timely and appropriate way

The engagement process is clear, communicated to everyone in a way that's easy to understand within a reasonable timescale, and the most suitable method/s for those involved is used.

### 4 Work with relevant partner organisations

Organisations should communicate with each other and work together wherever possible to ensure that people's time is used effectively and efficiently.

### 5 The information provided will be jargon free, appropriate and understandable

People are well placed to take part in the engagement process because they have easy access to relevant information that is tailored to meet their needs.

### 6 Make it easier for people to take part

People can engage easily because any barriers for different groups of people are identified and addressed.

### 7 Enable people to take part effectively

Engagement processes should try to develop the skills, knowledge and confidence of all participants.

### 8 Engagement is given the right resources and support to be effective

Appropriate training, guidance and support are provided to enable all participants to effectively engage, including both community participants and staff.

### 9 People are told the impact of their contribution

Timely feedback is given to all participants about the views they expressed and the decisions or actions taken as a result; methods and form of feedback should take account of participants' preferences.

### 10 Learn and share lessons to improve the process of engagement

People's experience of the process of engagement should be monitored and evaluated to measure its success in engaging people and the effectiveness of their participation; lessons should be shared and applied in future engagements.

These Principles were developed by Participation Cymru working with TPAS Cymru, under the guidance of the Participation Cymru partnership. Endorsed by the then First Minister of Wales, The Right Hon. Carwyn Jones AM on behalf of the Welsh Government. Further guidance on the National Principles can be found at [www.participationcymru.org.uk](http://www.participationcymru.org.uk)

## Appendix 2: National Standards for Children & Young People’s Participation

*“Children have the right to say what they think should happen, when adults are making decisions that affect them, and to have their opinions taken into account.”*

Article 12: The United Nations Convention on the Rights of the Child (UNCRC)

		This means:	We will:
1	Information	<ul style="list-style-type: none"> <li>You have the right to information that is easy to understand and allows you to make an informed decision.</li> </ul>	<ul style="list-style-type: none"> <li>Provide information that is good quality, clear and accessible.</li> <li>Inform you about who’s going to listen and let you know what difference your involvement could make.</li> </ul>
2	It’s your choice	<ul style="list-style-type: none"> <li>You have the right to choose to be involved and work on things that are important to you.</li> </ul>	<ul style="list-style-type: none"> <li>Give you enough support and time to choose if you want to get involved.</li> </ul>
3	No discrimination	<ul style="list-style-type: none"> <li>Children and young people are all different and have the right to be treated fairly.</li> </ul>	<ul style="list-style-type: none"> <li>Challenge discrimination.</li> <li>Provide a range of opportunities and support to meet the needs of children and young people.</li> </ul>
4	Respect	<ul style="list-style-type: none"> <li>You have the right to have a say. Your opinions are important and will be respected.</li> </ul>	<ul style="list-style-type: none"> <li>Listen to your views, experiences and ideas and take you seriously.</li> <li>Work with you on things you say are important.</li> <li>Value what you have to offer.</li> </ul>
5	You get something out of it	<ul style="list-style-type: none"> <li>You have the right to learn and be the best you can be.</li> <li>You will have opportunities to work with others and make a difference.</li> <li>We want you to be involved in positive experiences.</li> </ul>	<ul style="list-style-type: none"> <li>Work with you in safe, fun and enjoyable ways.</li> <li>Make the most of what you know and do things that build your confidence and skills.</li> </ul>
6	Feedback	<ul style="list-style-type: none"> <li>You have the right to know what differences you have made and how your ideas have been listened to.</li> </ul>	<ul style="list-style-type: none"> <li>Always ensure you have feedback in an agreed time.</li> <li>Tell you how your ideas have been used and why.</li> <li>Tell you what happens next.</li> </ul>
7	Working better for you	<ul style="list-style-type: none"> <li>Those who make decisions that affect children and young people should put children’s rights at the centre of everything they do.</li> </ul>	<ul style="list-style-type: none"> <li>Work with you and learn how we can do things better.</li> <li>Ensure your views make a difference to the way we make plans and decisions.</li> </ul>

