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For all enquiries relating to this agenda please contact Julie Lloyd
(Tel: 01443 864246 Email: lloydj4@caerphilly.gov.uk)

Date: 17th January 2023

To Whom it May Concern,

A multi-locational meeting of the **Policy and Resources Scrutiny Committee** will be held in Penallta House, and via Microsoft Teams on **Monday, 23rd January, 2023** 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. A simultaneous translation will be provided on request.

Members of the public or Press may attend in person at Penallta House or may view the meeting live via the following link: https://civico.net/caerphilly

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

Yours faithfully,

Christina Harrhy
CHIEF EXECUTIVE

A G E N D A

Pages

1 To receive apologies for absence.

2 Declarations of Interest.

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

To approve and sign the following minutes: -

3 Policy and Resources Scrutiny Committee held on 8th November 2022. 1 - 8

4 Special Policy and Resources Scrutiny Committee held on 12th December 2022. 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 - 26

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

1. Corporate Performance Assessment 2021/22 – 30th November 2022;
2. Draft Assessment Report for 2021/22 – 30th November 2022;
3. Cyber Security Strategy 2022-2025 – 30th November 2022;
4. Update on the Procurement Reform Agenda and to Extend the Council's Programme for Procurement (Strategy) For a Period of up to Eighteen (18) Months – 30th November 2022;
5. Christmas Closedown Arrangements – 30th November 2022;
6. Agile Policies – 14th December 2022;
7. Council Tax Base 2023-24 – 14th December 2022.

**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 Julie Lloyd, 01443 864246, by 10.00 a.m. on Friday, 20th January 2023.*

To receive and consider the following Scrutiny reports:-

8 Audit Wales 'Springing Forward - Workforce' Report July 2022. 27 - 48

9 Capital Strategy Report 2023/2024. 49 - 56

10 Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2023/2024. 57 - 90

Circulation:

Councillors M.A. Adams, Mrs E.M. Aldworth, C.J. Cuss, G. Enright, D. Ingram-Jones, G. Johnston (Chair), C.P. Mann, B. Miles (Vice Chair), A. McConnell, D.W.R. Preece, J. Reed, J. Taylor, C. Thomas, A. Whitcombe, L.G. Whittle and C. Wright

And Appropriate Officers

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POLICY AND RESOURCES SCRUTINY COMMITTEE

MINUTES OF THE MEETING HELD IN PENALLTA HOUSE AND VIA MICROSOFT TEAMS ON TUESDAY 8TH NOVEMBER 2022 AT 5.30 P.M.

PRESENT:

Councillor G. Johnston – Chair
Councillor B. Miles – Vice Chair

Councillors:

M. Adams, Mrs. E.M. Aldworth, C. Cuss, G. Enright, D. Ingram-Jones, C. P. Mann, A. McConnell, J. Reed, J. Taylor, C. Thomas, A. Whitcombe, L. G. Whittle, and C. Wright.

Cabinet Member:

Councillor Mrs. E. Stenner.

Together with:

Officers: R. Edmunds (Corporate Director of Education and Corporate Services), M.S. Williams (Corporate Director for Economy and Environment), S. Richards (Head of Transformation), L. Lucas (Head of Customer and Digital Services), I. Evans (Procurement and Information Manager), R. Roberts (Business Improvement Manager), K. Peters (Corporate Policy Manager), G. Jenkins (Head of Children's Services), M. Jacques (Scrutiny Officer), J. Thomas (Committee Services Officer), and J. Lloyd (Committee Services Officer).

Also in attendance: Councillors C. Andrews, and J. Pritchard, and B. Roberts (Audit Wales).

RECORDING ARRANGEMENTS

The Chair reminded those present that the meeting was being live-streamed and a recording would be made available to view via the Council's website, except for discussions involving confidential or exempt items. Click Here to View.

1. APOLOGIES FOR ABSENCE

Apologies received from Councillor D. Preece.

2. DECLARATIONS OF INTEREST

The Scrutiny Committee noted that Richard Edmunds, Corporate Director for Education and Corporate Services, would not be present during agenda item no. 6 'Workforce Capacity and Associated Challenges' as the subject of the report had a potential impact on the Corporate Directors. No further declarations were received.

3. MINUTES – 27TH SEPTEMBER 2022

It was moved and seconded that the minutes of the meeting held on 27th September 2022 be approved as a correct record and by way of Microsoft Forms (and in noting there were 11 for, 0 against and 2 abstentions) this was agreed by the majority present.

> RESOLVED that the minutes of the Policy and Resources Scrutiny Committee held on 27th September 2022 be approved as a correct record and signed by the Chair.

4. CALL-IN PROCEDURE

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

5. POLICY AND RESOURCES SCRUTINY COMMITTEE FORWARD WORK PROGRAMME

The Scrutiny Officer presented the report which outlined the reports planned for the period November 2022 to March 2023 and included all reports that were identified at the Policy and Resources Scrutiny Committee meeting held on Tuesday 27th September 2022. Members were asked to consider the Forward Work Programme, alongside the Cabinet Forward Work Programme, prior to publication on the Council's website.

Following consideration of the report, it was moved and seconded that the recommendations be approved. By way of Microsoft Forms (and in noting there were 13 for, 0 against and 1 abstention) this was agreed by the majority present.

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

6. CABINET REPORTS

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

REPORTS OF OFFICERS

Consideration was given to the following reports.

7. PROPOSAL FOR THE DEVELOPMENT OF COMMUNITY HUBS.

Cabinet Member, Councillor Mrs. E. Stenner introduced the report which sets a proposal for the development of Community Hubs in localities across the county borough. The proposal has been developed as part of the corporate review process. It centres on suggestions for an improved provision of services in communities, with shared use of the Council's assets with communities and other partners.

Members were advised that the Council has several front-facing locations in which customers can access specific council services. Co-located Customer Services and Library provision has been in place at key locations for a number of years. The proposal builds on and develops the historic model to suggest a more holistic service offer and at the same time proposes opening up spaces in Council run buildings for community use and for use by partners.

Members were also informed that the way in which services are delivered, has altered with more services meeting customers in the community. Digital provision of services has increased but this is not appropriate for all customers and that digital assistance in a face-to-face environment is required on occasion. The pandemic has accelerated agile working and the climate emergency has refocused the concentration of the whole public sector on the most efficient use of building assets. Members were advised that the proposal considers the future configuration and use of the Council's front-facing asset base and were referred to the recommendations included in the report, to develop the Community Hub model of future service delivery.

A Member queried if the availability and cost of building and design services would have an impact on the delivery of the Rhymney Library project. The Member also enquired why the proposal concentrated initially on six Tier One sites when it might be quicker and cheaper to explore less ambitious Tier Two and Tier Three sites first. In response to the first question the Head of Transformation advised that an additional funding bid had been submitted to Welsh Government as the initial project costs had increased due to supply chain challenges. Members heard how official confirmation was yet to be received but that the Welsh Government had been positive about the outcome, and it was hoped that the project would be completed by the end of March 2023. On the second question the Head of Children's Services, as Chair of the Corporate Review into the proposal, highlighted that the proposal for Tier Three sites enhanced existing services and would not have grant funding such as that identified for the Rhymney Library Hub. The Member wanted to know if it was the plan to develop all the Tier One sites before moving on to the smaller locations. The Head of Transformation outlined how the libraries identified under Tier One were key strategic sites and as such offered larger premises in which to host services. The Corporate Policy Manager added that Tier One sites provided the best option for providing the planned holistic customer presence before progressing to the other sites.

A Member observed that the report concentrated on Tier One sites and that there was a lack of information on timescales within the proposal. The Head of Children's Services advised that his review recommended concentrating on Tier One sites as the demand for services at the other sites was yet to be determined. It was also outlined how the vast majority of Customer Services interaction was via telephone and email. The Member highlighted that older residents in villages might prefer not to travel into the town centres to access services. The Head of Children's Services highlighted that the key drivers for the Corporate Review were asset rationalisation, modernising services and considering efficiencies and savings going forward. It was also reiterated that residents were changing the way they engaged with the Council.

A Member raised partnership working and queried if the proposed hubs would be able to accommodate the needs of voluntary sector organisations. It was suggested that dealing with housing enquiries at Community Hubs might alleviate telephone demand. The Head of Children's Services advised that there would be bookable space for voluntary organisations and statutory partners within the Community Hubs. On the issue of dealing with issues such as housing enquiries at the Hubs it was highlighted to Members that this was already happening. The Corporate Policy Manager advised that the intention was to extend this offer to other services in the future. The Head of Transformation highlighted that libraries were already widely used by community groups.

A Member queried the provision of frontline services for rural areas under the proposal discussed. It was outlined by the Corporate Policy Manager that the Corporate Review of Community Hubs focussed on existing buildings that could host services for residents. The Member raised the lack of Council buildings in some rural communities. The Head of Transformation highlighted the Sustainable Communities for Learning initiative under the 21st Century Schools programme. Members heard how in order to maximise the use of school buildings the Council could work with Headteachers and governing bodies to allow access for services outside of school hours.

A Member queried whether a full business case had been conducted for the Community Hubs proposal outlining such issues as costs and risks. The Head of Children's Services highlighted a raft of information that had been considered prior to the Corporate Review's recommendations. It was decided not to share all this information in one report due to the scale of the data which relates to every building reviewed. Members heard how the review found that usage for buildings was generally low. The Corporate Director for Education and Corporate Services outlined future consultation with communities on the design of services and also highlighted the view that developing Community Hubs would have a positive impact on footfall. The Member still felt a business case should have been carried out as part of the proposal. The Corporate Director for Education and Corporate Services suggested that the external funding bid that supported the Rhymney Library project should be shared with Committee Members.

A Member welcomed the proposal but sought assurances that it would not have a detrimental effect on the funding of other services in the same area. The Member also sought clarification on the One-Stop Shop approach at the Community Hubs. The Head of Children's Services stressed the importance of community engagement which would need to be specifically tailored for each locality. Members were also given assurances that the Hubs were based on a One-Stop Shop approach where residents could speak to Housing Officers and be supported to make digital payments, for example.

A Member asked if new buildings such as the Centre for Vulnerable Learners in Pontllanfraith and new schools in a neighbouring ward could also be considered as hosts for additional services. The Corporate Director for Education and Corporate Services confirmed that this approach would be considered.

A Member enquired if partners such as Citizens Advice would offer services on a peripatetic basis at Tier Two and Tier Three sites. It was the Member's view that this would be beneficial even if it was once weekly or fortnightly. The Head of Children's Services provided assurances that it was planned to co-produce services at Community Hubs and flexible approaches would also be considered. But he also highlighted that citizen engagement had changed significantly and the Council had to respond positively to that trend. It was also outlined that all partners faced challenging budgetary pressures.

A Member raised the issue of staffing at the Community Hubs and whilst agreeing with the principle of the proposal he had concerns that staff would be redistributed from a current service area to work at a Community Hub. The Member believed that such an approach would dilute the initial service. The Head of Children's Services advised that a definitive answer could not be given at this stage and highlighted that Library and Customer Services staff would have to work in partnership to develop the skills needed to deal effectively with enquiries. It was also outlined that the proposal would be kept under constant review and that the next phase would be looking at managing staff in the best possible way and that this stage would involve further consultation.

The Chair outlined how the proposal would attract more people into our town centres and also increase the opportunity for face-to-face interaction, which was the favoured approach for many residents.

Having considered the content of the report, it was moved and seconded that the following recommendations be recommended to Cabinet. By way of Microsoft Forms (and in noting there were 11 for, 0 against and 2 abstentions) this was agreed by the majority present.

RECOMMENDED to Cabinet:

1. Consider and provide comment on the proposal.

2. Support the proposal to implement the Tier 1 Community Hub model incrementally.

3. Make any additional recommendations for taking the proposal forward.

4. Agree that co-production with communities is the best most sustainable method for developing Community Hubs, and that engagement with communities and organised groups in the locations should be a key.

5. Agree that discussions should begin with staff working from the locations to gain their feedback and understanding of the proposal.

6. Agree that the concept of 'one public sector estate' and a shared commitment to carbon reduction principles, allowing shared use of spaces with our main public sector partners should underpin the proposal.

8. UPDATE ON THE PROCUREMENT REFORM AGENDA AND TO EXTEND THE COUNCIL'S PROGRAMME FOR PROCUREMENT (STRATEGY) FOR A PERIOD OF UP TO EIGHTEEN (18) MONTHS.

Cabinet Member, Councillor N. George introduced the report and informed Members that on 7th June 2022 the Social Partnership and Public Procurement (Wales) Bill ('SPPP Bill') was introduced before the Senedd Cymru. Members were advised that the aim of the SPPP Bill is to establish a statutory Social Partnership Council, create new social partnership duties on specified public bodies in Wales such as the Council, and promotes fair work and creates a duty for socially responsible public procurement. Also, to improve the economic, environmental, social, and cultural well-being of Wales (including by improving public services) by embedding the principle of social partnership in the operation of public bodies in Wales.

Members were also advised that the Council's Programme for Procurement ('Strategy') 2018-2023 was endorsed and implemented following a Cabinet meeting on 16th May 2018. The Council has been committed to ensuring that we achieve value for money from our third-party procurement expenditure. Having recognised the value of using procurement to support our wider cultural, social economic and environmental objectives in a way that offers real long-term benefits to the Community we serve and the people of Wales whilst balancing the issues of Value for Money.

A Member raised the introduction of a central list of debarred suppliers and broader rights to exclude suppliers for prior poor performance. The Member queried whether there was anything in the existing Procurement Policy which mirrored this aspect and whether or not a supplier fined for falsifying records by another agency would be placed on the barred list for example. The Procurement and Information Manager advised Members that there was the ability to debar suppliers under the existing strategy and he also outlined how such contractors were obliged to prove that they could meet contractual regulations before bidding for any future work. Members also heard how the Council worked in a collaborative way with other organisations across Wales as part of a procurement network. The Member thanked the officer and observed that he might have a private conversation with him outside of the meeting.

Having considered the content of the report, it was moved and seconded that the following recommendations be recommended to Cabinet. By way of Microsoft Forms (and in noting, there were 12 for, 0 against and 0 abstentions) this was unanimously agreed.

RECOMMENDED to Cabinet:

3.1 That Scrutiny Members note the current status of The Procurement Bill and the Social Partnership and Public Procurement (Wales) Bill.

3.2 That Scrutiny Members support the recommendation to Cabinet to extend the Council's existing Procurement Strategy for a period of up to eighteen (18) months.

9. AUDIT WALES REPORT, SPRINGING FORWARD – ASSETS JULY 2022.

Cabinet Member, Councillor Mrs. E. Stenner introduced the report and informed Members that Audit Wales had conducted a national review of how authorities were strategically using their experience post covid, to manage or transform their Assets. Members were referred to the full report which was included as Appendix A.

Members were advised that specifically Audit Wales wanted to review how councils were strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities. Members were informed that the overall finding was that 'In driving forward its intended significant changes to assets, informed by its experiences of the pandemic, the Council requires a longer-term approach'.

B. Roberts from Audit Wales presented the report, which was written by Audit Wales following their review of how CCBC manage their assets. Members were advised that these assets were mainly office accommodation and buildings that are used by the Council to provide services in the community. Members were referred to the report which identified three recommendations by Audit Wales to support the suggested improvements identified. The report also shows the Councils response and intended actions in response to the recommendations.

Members were advised that although the Council has an asset management strategy which is now some 3-4 years old, it is planning to make significant changes to services and office accommodation, and does not therefore have a fully integrated longer-term asset strategy, and the Councils understanding of longer-term trends and involvement of residents in shaping its strategic agenda is currently underdeveloped. Members were also advised that the Councils arrangements support active consideration of its statutory duties, however, insufficient staff capacity may constrain the delivery of its intended changes, and to reflect its increasing ambition the Council can strengthen its use of data to inform its understanding of performance. Members were referred to the updated Management response details included in the report as Appendix B.

A Member sought clarification on an asset transfer currently ongoing in the Ynysddu ward and queried whether a CCBC officer would be assigned to this particular case, to work within the community regarding the asset transfer. Members were advised that asset transfers usually include sports clubs, pavilions and pitches, and support would normally be given through Sport and Leisure, and Parks Services. Assets transfers could also include community centres, and Members were advised that one specific Officer would not deal with all different types of premises. Asset transfers could include issues regarding land ownership and covenants, which can cause a considerable delay to the transfer process. Members were advised however, that relevant groups of officers were available to assist community groups with asset transfers. Members were also referred to the Asset Transfer Policy and Guidance. The Member was advised to contact the Corporate Director for Economy and Environment, outside of the meeting, to discuss the specific case referred to.

A Member sought clarification on recommendation 3 in the report, 'to evaluate the benefits of partnership working' and noted that Officers had only partially accepted this. The member queried what more could be done by the Council to implement the recommendation. Members were advised that the former Head of Property, who has since retired, was tasked with leading an asset management group across the Public Service Board, looking at the public sector estate. This had proved to be a very difficult task as the commitment from other public sector partners to attend meetings, etc was weak and holding meetings was attempted on numerous occasions, but no progress was made. Members were also advised that this recommendation by Audit Wales had been included in other Local Authority reports, and not just Caerphilly, advising them to explore future opportunities within their authority.

A Member wished to note his own experience involved in an asset transfer for a sport facility and found the Officers in Sports and Leisure extremely helpful, knowledgeable and supportive throughout the whole process.

The Scrutiny Committee reviewed the Appendix A and discussed, challenged and scrutinised the information contained within.

The meeting closed at 6.56 pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 23rd January 2023, they were signed by the Chair.

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CHAIR

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SPECIAL POLICY AND RESOURCES SCRUTINY COMMITTEE

MINUTES OF THE MULTI-LOCATIONAL MEETING HELD IN PENALLTA HOUSE AND VIA MICROSOFT TEAMS ON MONDAY, 12TH DECEMBER 2022 AT 5.30 P.M.

PRESENT:

Councillor G. Johnston – Chair
Councillor B. Miles - Vice Chair

Councillors:

M. Adams, Mrs E.M. Aldworth, C. Cuss, G. Enright, D. Ingram-Jones, C. P. Mann, A. McConnell, D.W.R. Preece, J. Taylor, A. Whitcombe, C. Wright

Cabinet Members:

Councillors N. George (Corporate Services and Property), E. Stenner (Finance and Performance)

Together with:

R. Edmunds (Corporate Director of Education and Corporate Services), L. Donovan (Head of People Services), S. Richards (Head of Transformation and Education Planning and Strategy), C. Forbes-Thompson (Scrutiny Manager), J. Lloyd (Committee Services Officer), R. Barrett (Minute Taker)

Representing Trade Unions: L. Dallimore (Unison), J.A Garcia (Unison)

Also in attendance:

Councillors C. Andrews, C. Morgan

RECORDING, FILMING AND VOTING ARRANGEMENTS

The Chair reminded those present that the meeting was being live-streamed and recorded and would be made available following the meeting via the Council's website – Click Here to View Members were advised that voting on decisions would be taken via Microsoft Forms.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J. Reed, C. Thomas and L.G. Whittle.

2. DECLARATIONS OF INTEREST

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

REPORTS OF OFFICERS

Consideration was given to the following report.

3. AGILE POLICIES

The Cabinet Member for Corporate Services and Property presented the report, the purpose of which was to consult with the Policy and Resources Scrutiny Committee on four draft policies that support agile working, namely: Agile Working Policy, Annual Leave Policy, Flexi Scheme, and Mileage Scheme. The Scrutiny Committee were asked to consider and comment upon the four draft policies appended to the report, and if they were so minded, recommend these four policies to Cabinet for approval at the meeting being held on 14th December 2022.

The Scrutiny Committee were reminded that the Council's *Team Caerphilly – Better Together* Transformation Strategy was adopted by Cabinet on 12th June 2019. The strategy confirmed 10 Corporate Reviews, one of which was Flexible / Agile Working. The Government directive at the start of the pandemic required many of the Council's staff to work from home almost overnight, which heightened the need to progress the Flexible / Agile Working review, with relevant fit-for-purpose HR policies being key to support this change in direction for the organisation. One of the key actions in both the Employee Wellbeing Strategy 2021 – 24 and the Workforce Development Strategy 2021 – 24 is to update HR policies and procedures and the priority policies have been identified as those relating to agile working.

It was noted that the relevant trade unions had been consulted on the proposals and their comments taken into consideration when drafting the policies and schemes, with a copy of the written feedback from GMB and Unison appended to the report. Officer responses to the concerns raised by the trade unions were also set out at Section 5 of the report.

The Chair then invited Lianne Dallimore (Unison) to address the Scrutiny Committee in relation to the report.

Ms Dallimore thanked the Scrutiny Committee for the opportunity to speak on the report and confirmed that she was also speaking on behalf of GMB colleagues. Ms Dallimore referred to each of the draft policies in turn and highlighted the key points raised by the trade unions. It was confirmed that Unison and GMB were generally supportive of the draft policies with a few exceptions, particularly in relation to the Mileage Scheme.

In terms of the Agile Working Policy, the trade unions were generally supportive of the proposals and felt that these would provide greater flexibility and work-life balance opportunities for staff and make Caerphilly Council a more appealing employer in terms of staff recruitment and retention. However, the trade unions would have wished to see consideration given to a home-working payment or allowance, given the cost-of-living crisis and the increased cost implications in working from home, with this being an area that the trade unions will campaign for on a national basis. The trade unions also raised concerns around the requirement for managers to be able to '*ensure that they know where the employee is and what they are doing*' and feared that this could potentially lead to unnecessary staff monitoring and create bureaucratic and inefficient working practices, which would not be in-keeping with the Council's philosophy of being a progressive outcomes-based organisation.

The trade unions raised concerns about potential increases to home insurance costs as a result of home working and wished to see a commitment from the Council to pay any additional insurance costs incurred by the employee in this regard. The trade unions also sought clarity on CCBC's position as an employer in relation to health and safety responsibilities around home working and expressed a need for the Council to ensure that all staff have been supplied with suitable home working equipment (such as desks/chairs) in order to safely carry out their jobs.

In terms of the Mileage Scheme, Ms Dallimore explained that although the trade unions had no issues with three of the five categorisation proposals for employees, they had some concerns around the other two, namely the 'Flexible' and 'Mobile' categories, and were of the view that home to designated base mileage (i.e. commute mileage) should not be deducted from business mileage where a commute to and from the designated place of work has not been undertaken i.e. instances when an employee is working from home and would go direct to site from their home location on Council business. In particular, it was felt that clarity was needed in cases where employees sometimes work from home and sometimes work from an office base, given that if the employee works from home one day a week, they would still be expected to deduct their usual commute time from any business mileage claim. The trade unions viewed this as detrimental to the employee and felt that they should be able to claim the full amount of mileage, as they have made that journey in order to carry out Council business, and therefore felt that further negotiation was needed around this aspect of the Mileage Scheme.

The trade unions also held similar concerns around home to work commute times being deducted from daily working balances. It was therefore felt that a review period of 9 months would be beneficial in relation to the categorisation aspect of the Mileage Scheme, in order to identify any issues around the 'Flexible' and 'Mobile' categories and develop a workable solution that is fair to all employees.

In terms of the Annual Leave Policy, the changes have been welcomed by the trade unions, who have viewed this as a positive step for Council employees. Ms Dallimore referred to an ongoing Supreme Court case, for which the outcome may have an impact on the categorisation of annual leave moving forward but emphasised that the trade unions are generally supportive of this particular policy.

In terms of the Flexi Scheme, again the trade unions were generally supportive and felt that this would bring consistency to working practices in view of the varied flexible working systems that emerged across different service areas during the Covid-19 pandemic. In terms of the changes where an employee is now able to log hours 7 days a week (including across the weekend instead of Monday to Friday), the trade unions sought assurances that there would be no change to the employee's existing contractual hours if they are employed Monday to Friday. There was an expectation from the trade unions that should the needs of the service area change and require a change to existing staff terms and conditions and their contracted working hours, then this would be carried out in full consultation with the trade unions. It was also felt that one area of the Flexi Scheme policy could be improved, which currently states that there will be no payment of flexi accrued by an employee if they terminate their contract with the Council. The trade unions felt that, given any deficit hours are deducted from the employee's final pay when they leave the Council, the situation should also operate in reverse, with any accruement being paid to the employee in recognition of the work carried out.

Ms Dallimore asked the Scrutiny Committee to note the full written trade union responses as attached to the report, and thanked Members for their time.

Richard Edmunds (Corporate Director of Education and Corporate Services) asked the Scrutiny Committee to note the Officer responses to the trade union comments as set out in the report, and highlighted the extensive work carried out with trade unions and employees in developing these draft policies. Mr Edmunds was pleased to see that the trust and empowerment placed on employees across the last two years was now being recognised and formalised by way of the new policies and emphasised that the Authority would work with the trade unions to address any tweaks needed to the new policies as and when they arise.

The Scrutiny Committee discussed the report and a Member sought clarification on whether home working, where defined by the new categories, would be enforced or optional under the new Agile Working Policy. Lynne Donovan (Head of People Services) confirmed that in cases where the category provides the opportunity for home working, this would be a choice for the employee, but emphasised that the categories are set in accordance with service needs and not all service areas are able to accommodate agile working. In cases where relevant staff have chosen whether to work either mainly from home or in the office, managers are encouraged to hold regular discussions with staff so that they are able to change their minds regarding their main place of work if they so wish.

In response to a query on whether CCBC have any self-employed staff, Mrs Donovan confirmed that this is not the case, although the Council does engage agency workers, who would be given the same opportunities as CCBC staff and be able to work from home if the employee category permits this arrangement.

A Member gave a recent example of where he had experienced issues with the Council's telephone system and had been unable to contact Officers, and he asked how the system would be progressed and improved in view of the Agile Working Policy, given that more staff could potentially choose to work from home. Mr Edmunds confirmed that there is ongoing work around the telephony challenges being faced, including the implementation of Microsoft Teams Telephony, which will provide improved functionality across the Council and will also be able to report any system faults that arise. The Council are also in the process of compiling a service directory for Members which will comprise key contact numbers and email addresses for the various functions across the Authority. Members were also reminded that Officers have continual access to emails and can be contacted through this method requesting a call-back if required.

A Member referred to bonuses paid by other local authorities to encourage people to join that organisation and asked if consideration had been given to a similar scheme in Caerphilly Council. Mrs Donovan confirmed that there were no plans to introduce such incentives within CCBC, although this avenue has been used in the past but was found to be unsuccessful as employees were able to move onto alternative organisations who would reimburse them for any lost bonuses. However, in cases of more competitive posts, a market supplement can be applied to supplement the starting salary and encourage new staff into the Authority. Additionally, People Services are currently reviewing the existing employee terms and conditions, with a view to improving these to support existing staff and making the Council more attractive to new employees.

Clarification was sought on whether funding was available to employees to purchase furniture or other equipment in order to carry out home working duties in a safe and effective manner. The Cabinet Member for Corporate Services and Property confirmed that the Agile Working Policy makes provision for any furniture and/or additional equipment required for staff to undertake their jobs remotely, and that these resources may be provided at the Council's expense wherever appropriate. Mr Edmunds also reminded the Scrutiny Committee that at the start of the Covid-19 pandemic, Cabinet set aside funding for any furniture and equipment requests from staff. Although uptake had been low, it was confirmed that staff had also been permitted to take their monitors home to set up their home-working stations and have subsequently settled into using the existing equipment available to them.

A Member referred to the earlier point raised by the Unison representative in respect of the potential over-monitoring of staff as a result of the new Agile Working Policy and queried the avenues available to staff if they needed to raise this as an issue. The Member also sought justification around the lack of payment for accrued hours if an employee terminates their contract in view of these hours having been worked.

Mr Edmunds explained that in terms of managers being aware of where their staff are and what they are doing, the Council has a responsibility to ensure the safety of their staff in the workplace and that managers need to ensure that their staff are following all relevant health and safety precautions, particularly if the employee is lone working or working extensive hours. Therefore, this aspect of the policy relates to good management and having due regard for staff well-being. However, should a manager be felt to be over-monitoring staff, then there are processes in place for the employee to raise this as a concern and agree a more flexible monitoring arrangement with their manager. Mr Edmunds also gave assurances that he and the Head of People Services would be able to look into these issues if these are raised by the trade unions.

In terms of the query around flexi accruement and payment, Mrs Donovan emphasised that staff are encouraged to clear their balance of hours once they give notice, and that staff should only accrue flexi hours with the agreement of their manager. The Council are also able to offer flexibility around termination dates in that staff have the opportunity to finish work before their official leaving date and use up their flexi in order to clear the balance.

The Member asked what would happen if an employee accrued further hours during their notice period due to the needs of the service, and Mrs Donovan confirmed that on the rare occasions that this situation occurred, then the employee could look to negotiate a longer termination date to use up these hours or seek to swap their flexi for leave. However it was emphasised that all flexi should only be accrued with line manager approval and so this is a discussion that the employee and line manager should be having as soon as the employee gives their intention of notice.

In response to further comments from Members around payment of accrued hours, Officers confirmed that the position could be reviewed when the other aspects of the policies are reviewed, and they gave assurances that although the examples cited by the Scrutiny Committee were highly specific and unusual in nature, they would be fully prepared to take any learning on board regarding the new policies and examine any such issues that may arise in the future.

Unison’s view was sought on whether the issues raised in respect of the new policies could be addressed, and Ms Dallimore stated that with further negotiation by the trade unions and some wider thinking in relation to the Mileage Scheme, together with a review of the scheme after 9 months, she was confident that a satisfactory outcome could be achieved.

Following consideration of the report and with the Scrutiny Committee having considered and commented on the four draft policies attached to the report, it was moved and seconded that the following recommendation be forwarded to Cabinet for approval. By way of Microsoft Forms (and in noting there were 12 for, 0 against and 0 abstentions) this was unanimously agreed.

> RECOMMENDED to Cabinet that the four draft policies attached at Appendices 1-4 of the report (Agile Working Policy, Annual Leave Policy, Flexi Scheme and Mileage Scheme) be approved.

The Chair wished all in attendance a Merry Christmas and Happy New Year and the meeting closed at 6.25 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 23rd January 2023, they were signed by the Chair.

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CHAIR

POLICY AND RESOURCES SCRUTINY COMMITTEE – 23RD JANUARY 2023

SUBJECT: POLICY AND RESOURCES SCRUTINY COMMITTEE FORWARD WORK PROGRAMME

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

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

2. SUMMARY

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

3. RECOMMENDATIONS

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

4. REASONS FOR THE RECOMMENDATIONS

4.1 To improve the operation of scrutiny.

5. THE REPORT

5.1 The Policy and Resources Scrutiny Committee forward work programme includes all reports that were identified at the scrutiny committee meeting on Tuesday 8th November 2022. The work programme outlines the reports planned for the period January 2023 to March 2023.

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 3rd January 2023. The Cabinet Work Programme is attached at Appendix 2. A copy of the prioritisation flowchart is attached at appendix 3 to assist the scrutiny committee to determine what items should be added to the forward work programme.

5.4 **Conclusion**

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

6. ASSUMPTIONS

6.1 No assumptions are necessary.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

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

8. FINANCIAL IMPLICATIONS

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

9. PERSONNEL IMPLICATIONS

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

10. CONSULTATIONS

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

11. STATUTORY POWER

11.1 The Local Government Act 2000.

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

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

Lisa Lane, Head of Democratic Services and Deputy Monitoring Officer, Legal Services
Councillor Gary Johnston, Chair Policy and Resources Scrutiny Committee
Councillor Brenda Miles, Vice Chair Policy and Resources Scrutiny Committee

Appendices:

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

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Forward Work Programme - Policy and Resources

Appendix 1

Date	Title	Key Issues	Author	Cabinet Member
23/01/2023 17:30	Springing Forward Workforce		Donovan, Lynne;	Cllr. George, Nigel;
23/01/2023 17:30	Capital Strategy Annual Report		Harris, Stephen R;	Cllr. Stenner, Eluned;
23/01/2023 17:30	Treasury Management Strategy Annual Report		Harris, Stephen R;	Cllr. Stenner, Eluned;
21/02/2023 17:30	Whole-Authority Revenue Budget Monitoring Report (Period 9) P&R		Harris, Stephen R;	Cllr. Stenner, Eluned;
21/02/2023 17:30	Annual Reserves Report		Harris, Stephen R;	Cllr. Stenner, Eluned;
21/02/2023 17:30	Strategic Equalities Plan Annual Update Report		Richards, Sue;	Cllr. George, Nigel;
21/02/2023 17:30	Information Item - Capital budget monitoring reports (Period 7)		Harris, Stephen R;	Cllr. Stenner, Eluned;
21/02/2023 17:30	Information Item - Revenue budget monitoring reports for Corporate Services and Miscellaneous Finance (Period 7)		Harris, Stephen R;	Cllr. Stenner, Eluned;
04/04/2023 17:30	IT Security Update	Seeking assurance on the Councils Cyber Security arrangements.	Lucas, Liz;	Cllr. George, Nigel;
04/04/2023 17:30	Digital Update	Understanding how the Council is using Automation to enhance customer service	Lucas, Liz;	Cllr. George, Nigel;
04/04/2023 17:30	Community Empowerment Fund		Richards, Sue;	Cllr. Stenner, Eluned;
04/04/2023 17:30	Information Item - Workforce Development Strategy 2021 – 24 (6-month update)		Donovan, Lynne;	Cllr. George, Nigel;
04/04/2023 17:30	Information Item - Employee Wellbeing Strategy 2021 – 24 (6-month update)		Donovan, Lynne;	Cllr. George, Nigel;

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Cabinet Forward Work Programme – 17th January 2023

Meeting date:	Report title:	Key issue:	Report author:	Cabinet Member:
18/01/2023 13:00	Heating Plant Replacement – Ty Penallta	To update Cabinet in relation to works required to the heating plant at Ty Penallta, to outline the costs and work programme involved and to seek Cabinet approval for the works to be funded from the Council's Capital reserve.	Ben Winstanley; Mark Faulkner;	Cllr. Nigel George;
18/01/2023 13:10	Draft Budget Proposals for 2023/24 and Updated Medium-Term Financial Plan (MTFP)	To present Cabinet with details of the draft budget proposals for the 2023/24 financial year and an updated MTFP, to allow for a period of consultation prior to final decision by Council on the 28th February 2023.	Stephen Harris;	Cllr. Eluned Stenner;
25/01/2023 13:00	Pontllanfraith Indoor Bowls	To provide an update on the management of the Islwyn Indoor Bowls Centre and to recommend a revised approach moving forward.	Mark S Williams;	Cllr. Chris Morgan;/Cllr. Nigel George;
25/01/2023 13:10	Bryn Carno funding update	To provide Cabinet with a funding update regarding the remedial works to address issues associated with failed external wall insulation to both Caerphilly Homes' and private residential properties at Bryn Carno, Rhymney.	Nick Taylor-Williams;	Cllr. Shayne Cook;
25/01/2023 13:20	Extension of Flexible retirement - Exempt Item	To agree a flexible retirement extension for 1 year.	Dave Roberts;	Cllr. Eluned Stenner;

Appendix 2

Cabinet Forward Work Programme – 17th January 2023

Meeting date:	Report title:	Key issue:	Report author:	Cabinet Member:
22/02/2023 13:00	Budget Proposals for 2023/24 and Updated Medium -Term Financial Plan (MTFP)	Following the public Consultation, Cabinet to consider the outcome and endorse the 2023/24 budget proposals prior to final determination by Council on the 28th February 2023, and to note the updated MTFP.	Stephen Harris;	Cllr. Eluned Stenner;
22/02/2023 13:10	Private Finance Initiative (PFI)	To receive and consider a report on a review of the council's Private Finance Initiative (PFI) contracts.	Stephen Harris;	Cllr. Eluned Stenner;
22/02/2023 13:20	Welsh Government Retail, Leisure and Hospitality Rate Relief Scheme	To provide details of the new 'Retail, Leisure and Hospitality Rate Relief Scheme' offered by WG for 2023/24 which the Authority must formally adopt.	John Carpenter;	Cllr. Eluned Stenner;
22/02/2023 13:30	Empty Property Grant Approval	For Cabinet to consider the new Welsh Government National Empty Property Grant Programme.	Nick Taylor-Williams; Claire Davies;	Cllr. Shayne Cook;
08/03/2023 13:00	Biodiversity and Grass Cutting Regimes	To seek Cabinet approval in relation to proposals to enhance and promote biodiversity in our grass cutting regimes across the county borough and following consultation with local members.	Mike Headington;	Cllr. Chris Morgan;
08/03/2023 13:10	Empty Homes Strategy	To seek Cabinet approval of the proposed strategy.	Claire Davies; Mark Jennings;	Cllr. Shayne Cook;

Appendix 2

Cabinet Forward Work Programme – 17th January 2023

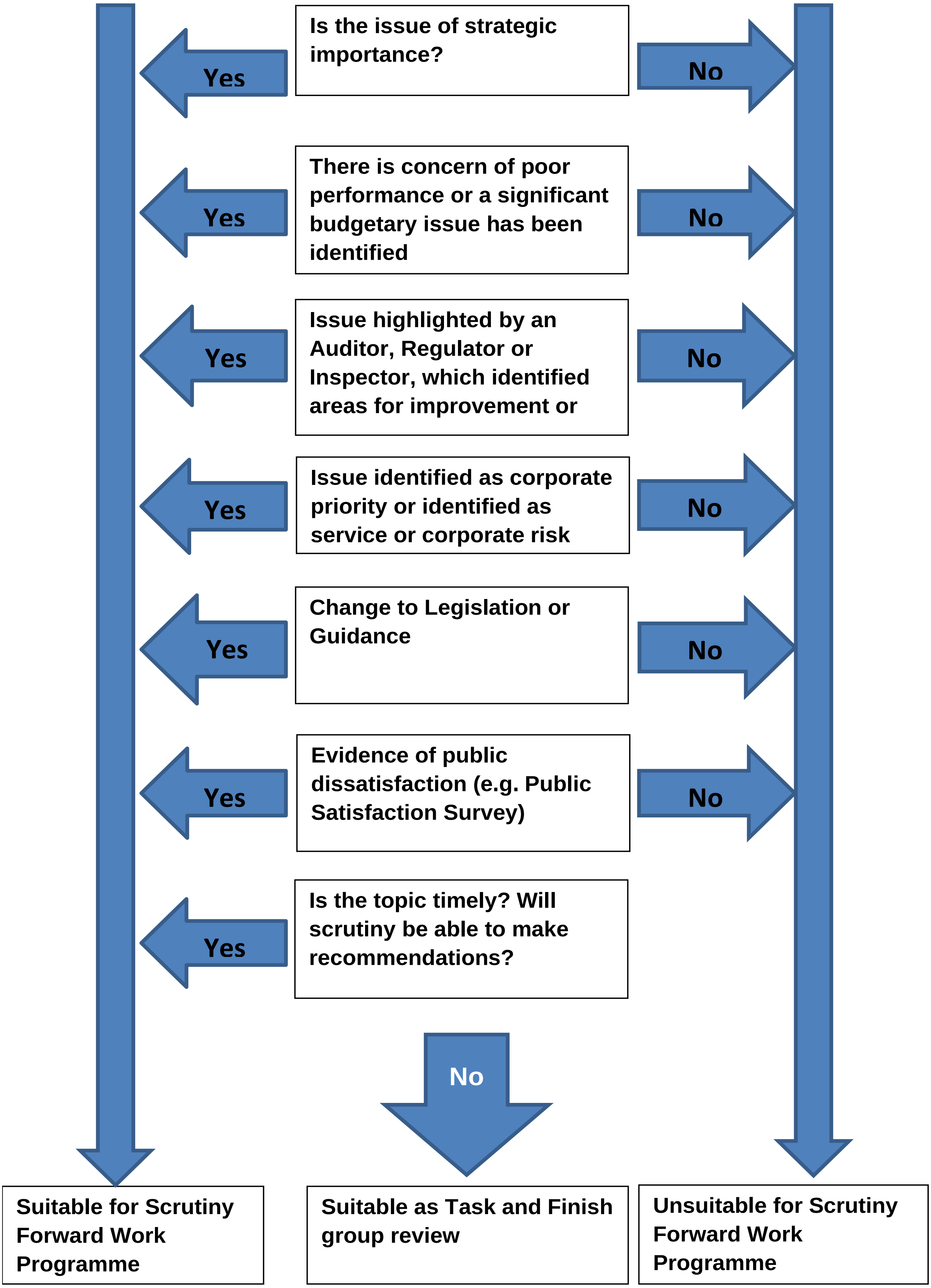
Meeting date:	Report title:	Key issue:	Report author:	Cabinet Member:
08/03/2023 13:20	Council Participation strategy 2023-2027	To seek approval of the revised participation strategy that captures the new requirements of the local government and elections act.	Hayley Lancaster; Rob Tranter;	Cllr. Nigel George;
22/03/2023 13:00	Housing Revenue Account Business Plan 2022/23	To seek Cabinet approval of the Housing Business Plan position in advance of submitting the plan to Welsh Government by 31st March 2023.	Nick Taylor-Williams;/Lesley Allen;	Cllr. Shayne Cook;
22/03/2023 13:10	Strategic Equality Plan Annual Report 2021-2022	For Cabinet to consider and approve the Strategic Equality Plan Annual Report 2021-2022 prior to publication on the Council's website.	Kath Peters; Anwen Cullinane;	Cllr. Nigel George;
22/03/2023 13:20	Caerphilly Homes Task Group	To agree that the Caerphilly Homes Task Group (CHTG) ceases as the Welsh Housing Quality Standard (WHQS) Programme has been completed.	Nick Taylor-Williams	Cllr. Shayne Cook;
22/03/2023 13:30	Gender Pay Gap	To agree the Gender Pay Gap report which has to be published by 31st March 2023.	Lynne Donovan	Cllr. Nigel George;
05/04/2023 13:00	Draft Waste Strategy	For Cabinet to agree the draft Waste Strategy	Marcus Lloyd; Hayley Jones;	Cllr. Chris Morgan;
19/04/2023 13:10	Workforce Development Strategy 2021-24 - 6 month update	To provide Cabinet with a 6 month update with the progress against the Workforce Development Strategy.	Lynne Donovan;	Cllr. Nigel George;
19/04/2023 13:20	Employee Wellbeing Strategy 2021-24 - 6 monthly update	To provide Cabinet with a 6 month update with the progress against the Employee Wellbeing Strategy.	Lynne Donovan;	Cllr. Nigel George;

Appendix 2

Cabinet Forward Work Programme – 17th January 2023

Meeting date:	Report title:	Key issue:	Report author:	Cabinet Member:
19/04/2023 13:00	Review of the Local Public Convenience Strategy	To seek Cabinet approval for the Council's updated Local Public Convenience Strategy following a review and public consultation.	Rob Hartshorn;	Cllr. Philippa Leonard;
03/05/2023 13:00	No items currently scheduled			
17/05/2023 13:00	Waste Strategy	For Cabinet to consider the outcome of the public Consultation and approve the final Waste Strategy.	Marcus Lloyd; Hayley Jones;	Cllr. Nigel George;
31/05/2023 13:00	No items currently scheduled			
14/06/2023 13:00	No items currently scheduled			
28/06/2023 13:00	Local Housing Market Assessment	The Delivery Plan sits underneath the Local housing Strategy which was approved in October 2021. The report seeks Cabinet approval of a number of key actions designed to take forward the objectives of the strategy.	Nick Taylor-Williams;/Jane Roberts-Waite;	Cllr. Shayne Cook;
12/07/2023 13:00	No items currently scheduled			
26/07/2023 13:00	Annual Corporate Safeguarding Report plus the Annual Safeguarding Management Information Report.	To seek approval of the Annual Safeguarding reports.	Gareth Jenkins;	Cllr. Elaine Forehead;
26/07/2023 13:10	Day Services	For Cabinet to consider and approve the new proposed Day Services Model.	Jo Williams;	Cllr. Elaine Forehead;

Scrutiny Committee Forward Work Programme Prioritisation



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POLICY AND RESOURCES SCRUTINY COMMITTEE – 23RD JANUARY 2023

SUBJECT: AUDIT WALES 'SPRINGING FORWARD – WORKFORCE' REPORT JULY 2022

REPORT BY: CORPORATE DIRECTOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

1.1 The purpose of the report is to provide Policy & Resources Scrutiny Committee with the Audit Wales report 'Springing Forward – Workforce' report, July 2022.

2. SUMMARY

2.1 Audit Wales have conducted a review to examine how Councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.

2.2 The report is attached at Appendix 1 for Members' consideration.

3. RECOMMENDATIONS

3.1 Policy & Resources Scrutiny Members are asked to

1) note the contents of the Audit Wales Springing Forward - Workforce report at Appendix 1

2) scrutinise the management response to the Springing Forward – Workforce report in Appendix 2

4. REASONS FOR THE RECOMMENDATIONS

4.1 Scrutiny members are part of the Council's Performance Framework and are a critical part of scrutinising and reviewing matters relating to the workforce.

5. THE REPORT

5.1 Audit Wales review examined the Council's overall arrangements and approach in relation to its strategic management of its workforce. They sought to answer the question 'Is the Council's strategic approach strengthening its ability to transform, adapt and maintain the delivery of its services in the short and longer term?' Their focus was on the challenges highlighted during the pandemic that have exacerbated some long-standing workforce issues.

5.2 As part of their review, Audit Wales were expecting public bodies to be able to demonstrate that the Well-being of Future Generations (Wales) Act 2015 is integral to their thinking and genuinely shaping what they do.

5.3 The project had had three main aims:

• to gain assurance that councils are putting in place arrangements in relation to its workforce to transform, adapt and maintain the delivery of services;

• to explain the actions that councils are taking both individually and collectively to strengthen their arrangements; and

• to inspire councils and other organisations to further strengthen their arrangements through capturing and sharing notable practice examples and learning and making appropriate recommendations.

5.4 The review sought to answer the question: Is the Council's strategic approach strengthening its ability to transform adapt and maintain the delivery of its services in the short and longer term? In doing this work we have identified some issues arising as a direct impact of the pandemic as well as some operational planning exacerbated by the pandemic.

5.5 Overall, Audit Wales found that the Council's Transformation Strategy prioritises Workforce Development, and the Council maintains a good overview of its current workforce challenges, but recognises it needs to apply the sustainable development principle to strengthen its workforce planning.

5.6 Within the report Audit Wales recommend that in developing its service-level workforce plans, the Council should place the sustainable development principle at the heart of its considerations, and specifically ensure it:

• builds on its experience of the COVID-19 pandemic;

• takes account of longer-term trends that may affect service provision and the efficient use of workforce;

• aligns with other strategic plans and outcomes;

• takes account of the needs of staff, service users and partners, and

• sets out SMART performance measures and appropriate monitoring and reporting arrangements.

5.7 The Management response to these recommendations is attached at Appendix 2 for Members consideration.

5.8 **Conclusion**

Audit Wales finding is that the Council's Transformation Strategy prioritises Workforce Development, and the Council maintains a good overview of its current workforce challenges, but recognises it needs to apply the sustainable development principle to strengthen its workforce planning was based on the following conclusions:

• the Council's Transformation Strategy prioritises Workforce Development and supporting strategies are in place;

• the Council maintains a good overview of its current challenges, and is dealing with the impact that the pandemic has on its workforce, but recognises it needs to formalise and complete its workforce planning arrangements; and

• the Council has monitoring arrangements in place but needs to assure itself as to how it will measure and evaluate progress in delivering its workforce plans.

6. ASSUMPTIONS

6.1 No assumptions have been made in this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 An Integrated Impact Assessment has not been completed as this report provides Policy and Resources Scrutiny Committee with the Audit Wales report 'Springing Forward – Workforce' report, July 2022.

8. FINANCIAL IMPLICATIONS

8.1 There are no financial implications in this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications in this report.

10. CONSULTATIONS

10.1 All consultation responses have been incorporated in the report.

11. STATUTORY POWER

11.1 Local Government Act 1972

Author: Lynne Donovan, Head of People Services

Consultees:	Christina Harrhy, Chief Executive David Street, Corporate Director Social Services and Housing Mark S. Williams, Corporate Director Economy and Environment Cllr Gary Johnson, Chair of Policy and Resources Scrutiny Committee Cllr Brenda Miles, Vice Chair of Policy and Resources Scrutiny Committee Cllr Nigel George, Cabinet Member for Corporate Services and Property Stephen Harris, Head of Financial Services and S151 Officer Robert Tranter, Head of Legal Services and Monitoring Officer Nicola Chapman, HR Service Manager Lisa Downey, HR Service Manager

Appendices:

Appendix 1 Audit Wales 'Springing Forward – Workforce' report, July 2022
Appendix 2 Management response

Archwilio Cymru
Audit Wales

Springing Forward – Workforce – Caerphilly County Borough Council

Audit year: 2021-22

Date issued: July 2022

Document reference: 3005A2022

This document has been prepared as part of work performed in accordance with statutory functions.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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- The Council maintains a good overview of its current challenges, and is dealing with the impact that the pandemic has on its workforce, but recognises it needs to formalise and complete its workforce planning arrangements 8
- The Council has monitoring arrangements in place but needs to assure itself as to how it will measure and evaluate progress in delivering its workforce plans 11

Summary report

Summary

1 As the world moves forward, learning from the global pandemic, our review looked at how councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.

2 We examined Caerphilly County Borough Council's (the Council) overall arrangements and approach in relation to its strategic management of its workforce. We sought to answer the question 'Is the Council's strategic approach strengthening its ability to transform, adapt and maintain the delivery of its services in the short and longer term?' Our focus has been on the challenges highlighted during the pandemic that have exacerbated some long-standing workforce issues.

3 When we began our audit work under the Well-being of Future Generations (Wales) Act 2015, we recognised that it would take time for public bodies to embed the sustainable development principle, but we did also set out our expectation that over the medium term we would expect public bodies to be able to demonstrate how the Act is shaping what they do. It is now approaching seven years since the Well-being of Future Generations Act was passed and we are now into the second reporting period for the Act. Therefore, we would now expect public bodies to be able to demonstrate that the Act is integral to their thinking and genuinely shaping what they do.

4 This project had had three main aims:

- to gain assurance that councils are putting in place arrangements in relation to its workforce to transform, adapt and maintain the delivery of services;
- to explain the actions that councils are taking both individually and collectively to strengthen their arrangements; and
- to inspire councils and other organisations to further strengthen their arrangements through capturing and sharing notable practice examples and learning and making appropriate recommendations.

5 This is important because the Council invests considerable sums in its workforce. Some key information from 2020-21 is shown in **Exhibit 1**.

Exhibit 1: key facts and figures relating to workforce

Key facts and figures relating to workforce	
Number of staff	• 8,304[1]
Spending on workforce	• £246,604,000[2]

6 The project, which forms part of the work contained in the 2021 Audit Plan, will help discharge the duties under section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act) and section 15 of the Well-being of Future Generations (Wales) Act 2015. It may also inform a study for improving value for money under section 41 of the 2004 Act.

7 The COVID-19 pandemic has impacted on the way that staff work. This report examines some of these impacts and the way that the Council benefits from the positives and mitigates risks from the negatives when planning future service delivery.

8 The project was undertaken through a combination of document reviews, focus groups and interviews with officers and Members. We undertook the review between February 2022 and March 2022.

What we found

9 Our review sought to answer the question: Is the Council's strategic approach strengthening its ability to transform adapt and maintain the delivery of its services in the short and longer term? In doing this work we have identified some issues arising as a direct impact of the pandemic as well as some operational planning exacerbated by the pandemic.

10 Overall, we found that the Council's Transformation Strategy prioritises Workforce Development, and the Council maintains a good overview of its current workforce challenges, but recognises it needs to apply the sustainable development principle to strengthen its workforce planning.

11 We reached this conclusion because:

- the Council's Transformation Strategy prioritises Workforce Development and supporting strategies are in place;

[1] Workforce Development Strategy 2021-24

[2] Statement of Account 2020-21

- the Council maintains a good overview of its current challenges, and is dealing with the impact that the pandemic has on its workforce, but recognises it needs to formalise and complete its workforce planning arrangements; and
- the Council has monitoring arrangements in place but needs to assure itself as to how it will measure and evaluate progress in delivering its workforce plans.

Recommendations

Exhibit 2: recommendations

The table below sets out the recommendations that we have identified following this review.

Recommendations
Workforce and succession plans, monitoring and reviewing R1 In developing its service-level workforce plans, the Council should place the sustainable development principle at the heart of its considerations, and specifically ensure it: • builds on its experience of the COVID-19 pandemic; • takes account of longer-term trends that may affect service provision and the efficient use of workforce; • aligns with other strategic plans and outcomes; • takes account of the needs of staff, service users and partners, and • sets out SMART performance measures and appropriate monitoring and reporting arrangements.

Detailed report

The Council's Transformation Strategy prioritises Workforce Development, and the Council maintains a good overview of its current workforce challenges, but recognises it needs to apply the sustainable development principle to strengthen its workforce planning

The Council's Transformation Strategy prioritises Workforce Development and supporting strategies are in place

In reaching this conclusion we found that:

12 The Council has developed a Transformation Strategy, '#Team Caerphilly – Better Together'. Cabinet approved the Strategy in June 2019. The Council describes the Strategy as, 'a new 'whole authority' operating model to ensure a resilient Caerphilly County Borough for the future'. The Strategy reflects the Council's ambition to transform at pace. The Strategy is a wide-ranging programme of change, including a commercialisation and investment strategy, place-shaping projects (for example 21st Century Schools and Respite Homes) and workforce-related developments.

13 The strategy sets out details of the new operating model which is supported by a Strategic Action Plan. In July 2020, the Cabinet agreed a series of ten corporate reviews to strengthen the new approach embodied by the Transformation Strategy and to consider changes to service delivery that have emerged from the Council's response to the pandemic. These include changes to workforce development and flexible working arrangements for staff set out below.

14 In September 2021, the Council adopted its Workforce Development Strategy 2021-2024. The purpose of the strategy is 'to develop a workforce that is fit for the future', and focuses on four key themes supported by the Workforce Action Plan:

- 'Focusing on what matters';
- 'Managing talent and creating opportunity';
- 'Valuing our employees'; and
- 'Fulfilling our potential'.

15 The Council has also developed a comprehensive Employee Wellbeing Strategy 2021-24, detailing how stakeholders will work together to fully support employees' health and wellbeing. Particularly in response to the increasing concern by the Council about mental health, and the impact the pandemic has had on employees.

16 The Well-being of Future Generations (Wales) Act 2015 places a duty on public bodies to consider the long term. As detailed above, the Council Workforce Development Strategy 2021-24 and Employee Wellbeing Strategy 2021-24 cover a short period. Whilst the strategies set out priority actions and highlight efforts made to transform workforce development, the Council will need to consider the skills, knowledge and capacity it will need both now and, in the future, so that it can design workforce plans that meet both short-term objectives and longer-term ambitions.

17 In the early stages of the pandemic, many staff adjusted to working from home. Some were unable to work from home because the services could not be delivered remotely, and some staff were redeployed to other duties. This change in working practice accelerated the pace of transformation of the Council's Flexible Working review. It consists of several workstreams, including defining its approach to flexible working, and reviewing policies impacted by any changes.

18 In July 2021, the Council approved funding of £168,000 to appoint staff on a fixed-term basis to invest in the Workforce Development team's capacity. The appointment of the workforce development managers allows more focus to be given to the key priorities of the Workforce Development Strategy. However, in considering the scale of its ambition, the Council needs to assure itself that it has sufficiently resourced the workforce development function to achieve transformation at pace.

19 The Council has rated workforce as high risk in its Corporate Risk Register. It includes recruitment and retention of staff across the whole Council, particularly the appointment of staff to key positions which is a significant challenge and is starting to affect some service delivery. The risk register includes short-term and some longer-term mitigating actions, and the Council will need to consider the implications of these when reviewing its workforce strategy.

The Council maintains a good overview of its current challenges, and is dealing with the impact that the pandemic has on its workforce, but recognises it needs to formalise and complete its workforce planning arrangements

In reaching this conclusion we found that:

20 As referred to in **paragraph 18**, the Council has added capacity to the Workforce Development team to strengthen its approach to organisational development, oversight of workforce issues and support services in workforce planning.

21 However, the COVID-19 pandemic has had an unprecedented impact on the Council. The Council has worked hard to deal with the pandemic whilst maintaining delivery of key services. Whilst the Council has responded to the pandemic to ensure the delivery of key services, progress toward its longer-term workforce planning actions has understandably been slowed.

22 The Council recognises it needs more complete workforce planning arrangements to help identify its services' future workforce needs. For example, the officers we spoke to were aware of the need to have service level workforce plans and succession plans. The Council has not yet implemented a formal method for capturing these.

23 Nevertheless, officers described their commitment to establishing formal workforce planning arrangements as part of its new workforce planning framework which mirrors the good practice identified by the Chartered Institute of Personnel and Development (CIPD). At the time of our fieldwork, we were told that the new framework is currently being developed and should be introduced in Summer 2022.

24 The pandemic has highlighted workforce issues such as difficulty in recruiting and retaining staff across many services, an aging workforce, the risk of losing organisational experience, and the need to adapt its ways of working to be more flexible in delivering services. Officers and members referred to current challenges and several drivers for change which are likely to influence the future workforce, demonstrating consideration of longer-term trends.

25 In tackling its workforce issues, the Council has analysed its current workforce and is considering emerging risks across the whole Council. We have seen documentation setting out the recruitment and retention challenges facing the Council for each directorate and the steps being taken to try and overcome those challenges. For example, there are recruitment challenges in Social Care, Education, and those services which require technical skills that are in short supply, such as Digital Services, Translation, and Civil Engineering. For some, the pandemic and increased use of remote access have allowed staff to work in other parts of Wales or the UK without needing to commute daily, which means that the Council can aim to attract new recruits from afar if it wishes. The Council will need to consider how far is reasonable to recruit and what are the implications for different services.

26 There is emphasis given by the Council on 'growing its own' talent by providing apprenticeship opportunities. In its meeting on 24 February 2022, the full Council approved a budget of £250,000 for the establishment of a new apprenticeship scheme across the Council to help address future skills shortages the Council faces. This is in addition to a one-off £500,000 investment previously agreed in 2021-22.

27 The Council has considered the wider environment in which its workforce operates. It believes that competition for staff has increased at the local, regional, and national levels. Officers told us that they were seeing employees move to other organisations where salaries were more competitive.

28 A short-term solution that the Council is taking to try and tackle this issue is paying a market supplement, for example to Social Workers. This is a temporary fixed-term additional payment, paid to an individual's basic salary to bring the total annual salary for the role up to the market rate.

29 The Council identifies its pay and grading structure as a significant challenge and that it may not be fit for the future. We understand that the Council is exploring options to ensure its pay and grading structure is sustainable.

30 There are also other wider issues around recruitment and retention such as skills shortages which could benefit from being addressed on a national level as well as at a regional and local level. The Council should ensure its future workforce planning processes actively consider and help address these potential long-term workforce trends as well as addressing current issues to ensure they reflect changing needs.

31 The Council is evaluating its approach to job descriptions for some posts to maximise the likelihood of attracting the right candidates; in addition, the Council has identified that it needs to work with Welsh-medium schools as one means of addressing difficulty in recruiting to some posts which include Welsh as an essential requirement.

32 With regards to collaboration, there are examples of the Council working with others to deliver services, though some of these were not specifically prompted by the pandemic. Some, such as the recent agreement for the Council to deliver legal services for Blaenau Gwent County Borough Council's Children's Services, help address challenges recruiting into professional roles. The Council has taken the opportunity to work across organisational boundaries by developing a Collaborative Leadership qualification with Gwent Police. Also, the Council's Human Resources service is supporting the Employment Team that works with the unemployed in the County Borough through programmes such as Jobs Growth Wales, to appoint a number of placements through the Kickstart Scheme.

33 The Workforce Strategy 2021-24 incorporates actions of other key strategic documents such as the Strategic Equality Plan (2020-2024), the Customer and Digital Strategy 2019-2023, Communications and Engagement Strategy 2019-2022, and Consultation and Engagement Framework 2020-2025. As new strategies are developed and existing ones are reviewed, the Council should ensure it fully integrates all relevant corporate strategies, for example, its Asset Management Strategy 2019-2024 and Decarbonisation Strategy.

34 The Council has considered how it involves others in shaping its Workforce. The Council has engaged with staff to understand how they want to work in the future. It undertook a Flexible Working Survey in June 2020 and May 2021. In both surveys, most respondents indicated that they would like to work in a more flexible way in the future.

35 The Council has consulted stakeholders, such as the Trades Unions, on the Workforce Development Strategy 2021-24 and the Employee Wellbeing Strategy 2021-24 and meets regularly to discuss progress. The Council should assure itself that it is involving stakeholders at the earliest opportunity to reflect on how well it understands the needs and challenges facing stakeholders to inform the design of any strategies.

36 The Council has focused on supporting managers to manage in a flexible way and is establishing a working partnership with the Open University to develop online learning provision for its managers in this regard. The Workforce Strategy Action Plan notes a priority action is to develop links with private training providers, local colleges, and universities.

37 However, the Council recognises that there is room for improvement in their Learning and Development offer. At the time of our field work, officers described the aim to have a corporate, coordinated approach to Learning and Development across the Council, removing the responsibility of learning provision from services. Officers explained that this is to ensure that the Council provides a comprehensive learning and development offer to its employees to enhance their skills and fulfil their potential.

The Council has monitoring arrangements in place but needs to assure itself as to how it will measure and evaluate progress in delivering its workforce plans

In reaching this conclusion we found that:

38 The Corporate Management Team receives reports on a variety of workforce related issues such as the Workforce Development Strategy and sickness absence. We were told that Workforce Development Managers meet with Heads of Service to discuss workforce issues.

39 The Workforce Strategy has monitoring arrangements in place. The HR Strategy Group monitors the delivery of the actions through regular meetings and reports to the Team Caerphilly Programme Board. A report on workforce strategy is also presented to the Policy and Resources Scrutiny Committee.

40 Although there are clear actions set out, there is an opportunity to incorporate measurable targets to clarify how progress against workforce plans will be measured and capture the contribution to wider outcomes (for example, decarbonisation, flexible working and digital).

41 The Council has workforce data such as age profile, sickness absence rates, length of service and is developing a Workforce Intelligence Dashboard. The Dashboard will support workforce planning by allowing managers to further investigate trends in performance data.

42 As mentioned in **paragraph 23**, the Council is producing a Workforce Planning Framework to support the development of workforce plans. We have not seen the draft framework and cannot determine whether the Council has designed clear and measurable evaluation processes into all stages of the framework. This would enable the Council to assure itself that it is considering and responding to workforce planning and service demand issues appropriately and thereby managing its risks effectively. The officers we spoke to told us that workforce planning should be an ongoing process and that future workforce plans would be 'living documents', updated as they are reviewed.

43 Officers have actively participated in regional HR networks and have continued to meet with peers during the pandemic. The Council should explore whether there are opportunities to benchmark data that may provide useful insight into the Council's individual performance and can identify opportunities for learning from other organisations.

44 The COVID-19 pandemic has presented opportunities to work differently, and the Council now needs to consider its future workforce needs. As the Council reshapes its business, it has opportunities to be ambitious and set out what the future workforce might look like. It is important that the Council considers the long-term demand for services. An embedded workforce planning process will help all Council services set out what the future looks like.

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Management response

Report title: Springing Forward - Workforce

Completion date: by 26.8.22

Document reference:

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Ref	Recommendation	Accepted (yes/no)	Management response	Completion date	Responsible officer
R1	**Workforce and succession plans, monitoring and reviewing** R1 In developing its service-level workforce plans, the Council should place the sustainable development principle at the heart of its considerations, and specifically ensure it: • builds on its experience of the COVID-19 pandemic; • takes account of longer-term trends that may affect service	Yes	The Council is introducing a Workforce Planning Framework and Toolkit to support service level workforce planning. Workforce planning will work alongside service planning, with a clear focus on the Well-being of Future Generations Act and sustainable development principles. Workforce planning supports both our organisational and service level strategic aims, addresses learnings from the pandemic and responds to		

Ref	Recommendation	Accepted (yes/no)	Management response	Completion date	Responsible officer
	provision and the efficient use of workforce; • aligns with other strategic plans and outcomes; • takes account of the needs of staff, service users and partners, and • sets out SMART performance measures and appropriate monitoring and reporting arrangements.		both internal and external drivers of change. Workforce planning will seek to address changing external pressures, service user and partner needs through the critical review of service provision and assessment of future workforce requirements, whilst identifying staff needs through succession and skills analysis. The Framework will assist managers with the workforce planning process and develop SMART actions to achieve objectives.		

Ref	Recommendation	Accepted (yes/no)	Management response	Completion date	Responsible officer
			Actions identified: Introduce the Workforce Planning Framework	 Autumn 2022	 Head of People Services

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POLICY AND RESOURCES SCRUTINY COMMITTEE - 23RD JANUARY 2023

SUBJECT: **CAPITAL STRATEGY REPORT 2023/2024**

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

1. PURPOSE OF REPORT

1.1 To submit prior to its presentation to Council on the 23rd February 2023, the Authority's Capital Strategy report for the 2023/24 financial year in accordance with the Prudential Code that was introduced by the Local Government Act 2003.

1.2 The report cross-references to the report by the Corporate Director of Education and Corporate Services on Revenue and Capital Budgets ["the budget report"]; and the Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy Report for 2023/2024.

2. SUMMARY

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

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

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

- That capital investment plans are affordable, prudent and sustainable;
- That treasury management decisions are taken in accordance with good professional practice;

- That local strategic planning, asset management and proper option appraisal are supported.

3. RECOMMENDATIONS

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

4. REASONS FOR THE RECOMMENDATIONS

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

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

5. THE REPORT

5.1 <u>Corporate Priorities</u>

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

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

Link to Corporate Plan

5.2 <u>Capital Expenditure and Financing</u>

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

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

- The acquisition or creation of a new fixed asset - capitalisation will depend on the creation of rights to future economic benefits controlled by the Authority;

- The enhancement of an existing fixed asset - capitalisation will depend on the works substantially increasing the value of the asset, extending its useful life, or increasing its use in service provision.

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

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

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

5.2.5 The Authority's three year core capital programme from 2023/24 is summarised below:

	2023/24 budget	2024/25 budget	2025/26 budget
	£000s	£000s	£000s
Council Fund	11,636	9,668	9,599
Housing Revenue Account	64,865	54,519	19,568
TOTAL	**76,501**	**64,187**	**29,167**

Table 1: Prudential Indicator: Estimates of Capital Expenditure

5.2.6 Further details of the 2023/24 – 2025/26 core capital programme and the funding of the programme can be found in the Budget Report.

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

5.2.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not get subsidised, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded and funded separately and includes building 400 affordable homes over the next 5 years, and the implementation of the Post Asset Management Programme which is designed to maintain the Council Housing Stock to the WHQS standard over the next 30 years.

5.2.9 The HRA Budget is an indicative figure and the final budget will be as per the HRA Business Plan 23/24 which will be approved by full Council prior to the 31st March 2023.

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

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

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

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

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

5.3 Asset management

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

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

Link to asset management strategy

5.3.3 As at 31st March 2022 the Authority's fixed assets (property, plant, and equipment) had a net book value of £1.241bn. The net book valuation is an accounting valuation, which does not translate to market value. Further details can be found in Note 24 to the Authority's 2021/22 Statement of Accounts:

Link to Statement of Accounts

5.3.4 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on acquiring new assets; enhancing the existing asset base; or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

5.4 Treasury Management

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

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

5.4.3 Due to decisions taken in the past, the Authority currently has £310.2m nominal debt outstanding as at 31 March 2022, at an average interest rate of 4.36% and £195.9m nominal treasury investments at an average income rate of return of 1.12%.

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

5.5 Investments for Service Purposes

5.5.1 The Authority provides capital grants to local businesses and the voluntary sector for the purpose of economic regeneration (Caerphilly Enterprise Fund – 2022/23 core capital budget of £50k). Such grants are awarded on application and criteria basis.

5.5.2 **Governance:** Decisions to award local businesses and the voluntary sector capital grants are undertaken by the relevant service manager in consultation with the Head of Service. The Caerphilly Enterprise Fund grant applications are assessed by the Business Enterprise Renewal Team, the Cabinet Member for Performance, Economy and Enterprise and a Grant Officer from Finance. The final decision to award is undertaken by the Head of Regeneration and Planning. In either case the award decision is posted on the intranet.

5.5.3 The decision to make a loan or to purchase share capital will be referred to the Head of Financial Services and S151 Officer, who will in turn make a recommendation to Cabinet and Full Council once an appraisal exercise has been undertaken. The decision to award will need to be funded from the capital programme and will be subject to a robust business case in the first instance.

5.6 Commercial Activities

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

5.6.2 In the event of the Authority purchasing a commercial investment, the Authority may seek to finance the purchase through borrowing, (for debt to yield purchases the Authority will not be able to borrow from the PWLB). In any such case arising the Authority will prepare a detailed report for Council that includes a full option appraisal and risk assessment of the investment. The report will highlight the rationale for the commercial investment.

5.6.3 With financial return being the main objective, the Authority would accept higher risk on a commercial investment than with treasury investments. The principal risk exposures include a decline in the property market; volatility in the capital value of property; capital being tied up in the medium/long-term horizon and active management of properties when purchased directly.

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

5.6.5 **Governance:** Treasury management decisions on commercial investments are made in accordance with the approved Treasury management Strategy. Non treasury investments will be referred to the Head of Financial Services and S151 Officer and the Corporate Management Team to consider with further referral to Cabinet and Full Council for the final decision.

Monitoring of the commercial investments (treasury management related) will be included within the treasury management monitoring reports (or other Council reports) that are presented to the Policy and Resources Committee. Non-treasury management commercial investments will be reported separately by the Head of Financial Services and S151 Officer.

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

5.7 Revenue Budget Implications

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

5.7.2 Further details on the revenue implications of capital expenditure are set in Appendix 6 of the Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy report for 2023/2024.

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

5.8 Knowledge and Skills

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

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

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

5.8.4 **Training:** Key relevant staff will undertake training as and when opportunities arise or whenever there are changes in regulations. The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year. Officers will look to schedule treasury management training for Members for Spring 2023. Further Member training will be undertaken as and when required.

6. ASSUMPTIONS

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

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

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

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

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

8. FINANCIAL IMPLICATIONS

8.1 There are no financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications.

10. CONSULTATION

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

11. STATUTORY POWER

11.1 Local Government Act 1972

Author:	Rhiann Williams – Group Accountant -Treasury Management & Capital
Consultees:	Stephen Harris – Head of Financial Services and S151 Officer Andrew Southcombe – Finance Manager, Corporate Finance Robert Tranter- Head of Legal Services and monitoring Officer Cllr E. Stenner – Cabinet Member for Performance, Economy and Enterprise

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POLICY AND RESOURCES SCRUTINY COMMITTEE - 23RD JANUARY 2023

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2023/2024**

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

1. PURPOSE OF REPORT

1.1 To submit for consideration prior to its presentation to Council on the 23rd February 2023, 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 2023/2024.

2. SUMMARY

2.1 The revised (2021) "Code of Practice for Treasury Management in the Public Services" provides that an Annual Strategy be submitted to Members on or before the start of a financial year to outline the activities planned within the parameters of the Treasury Management Policy Statement and the Treasury Management Practices.

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

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

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

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

3. RECOMMENDATIONS

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

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

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

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

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

3.1.5 The continuation of the 2022/23 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.

3.1.6 That the Authority has approval to borrow £46.8m for the General Fund to support the 2023/24 capital programme and £45.0m for the HRA WHQS and Affordable Homes programme.

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

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

4. REASONS FOR THE RECOMMENDATIONS

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

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

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

5. THE TREASURY MANAGEMENT REPORT

5.1 Economic Background

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 and the Economic Outlook.

5.1.2 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

5.1.3 The Monetary Policy Committee [MPC] increased Bank Rate in December 22 to 3.5%. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 as the Bank of England attempts to subdue inflation.

5.1.4 Consumer price inflation is expected to have peaked at around 11% in the last calendar quarter of 2022. It is forecasted to fall sharply to 1.4%, below the 2% target, in 2 years time. The most recent labour market data showed the unemployment rate was 3.7% however looking forward the unemployment rate is expected to rise to around 6.5% in 2025 in response to the deteriorating outlook for growth. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%.

5.1.5 The UK economy contracted by 0.3% between July and September 2022 and the Bank of England forecasts GDP will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is expected to continue to fall throughout 2023 and the first half of 2024.

5.1.6 Gilt yields are expected to remain broadly at the current levels over the medium-term with the 5, 10 and 20 year gilt yields expected to average around 3.5%, 3.5% and 3.85% respectively. The risks around the gilt yield forecasts are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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

5.2 Credit Outlook

5.2.1 Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-10 pandemic.

5.2.2 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from negative to stable.

5.2.3 The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of bank's assets, while higher interest rates provide a boost to net income and profitability. The institutions on Arlingclose's counterparty list remain well-capitalised and their advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

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 Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £49.5m (as at 31st March 2022) 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 unlikely that the total borrowing requirement of £46.8m will need to be taken up in 2023/24 for the General Fund to support the capital programme, provision has been made in the budget to fund an element of this borrowing. Much of this borrowing has been deferred from previous financial years. The HRA will borrow £45.0m in 2023/24, though some of the HRA borrowing may be deferred to future years subject to the Business Plan revisions.

5.3.5 Therefore, the total potential 2023/24 borrowing requirement will be £91.8m comprising of

- 2023/24 supported borrowing approvals - £4.8m
- 2022/23 supported borrowing approvals - £4.8m
- 2021/22 supported borrowing approvals - £4.9m
- 2020/21 supported borrowing approvals - £4.9m
- 2019/20 supported borrowing approvals - £4.9m

- 2018/19 supported borrowing approvals - £4.9m
- 2017/18 supported borrowing approvals - £5.0m
- 2016/17 supported borrowing approvals - £5.0m
- 21st Century Schools LGBI- £4.2m
- 21st Century Schools prudential borrowing (Band A) - £3.4m
- HRA - £45.0m*

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

The HRA borrowing approval includes £17.9m deferred borrowing from 2019/20. As above, this has been funded from internal borrowing and retrospectively borrowing these approvals will replenish the internal borrowing.

The HRA currently has a borrowing cap of £90m which was approved last year. This is likely to be increased as part of the 2023/24 Business Plan, which will be reported to members for approval prior to being submitted to the Welsh Government by the 31st March 2023, to cover future years 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 5.70% 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 are likely to rise during the early part of 2023. The use of internal borrowing to fund the 2023/24 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. The ‘cost of carry’ and breakeven analysis will be monitored closely and a decision taken in consultation with our Treasury Advisors at the optimum time to take out borrowing.

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)
- UK Infrastructure Bank
- Local Authorities

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

5.3.10 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 2023/24, 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, however 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). 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 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to renegotiate premature redemption terms. The Authority may take advantage of this , where this is expected to lead to an overall cost saving or reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

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 (2022/23)** - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) money market funds and call accounts. The Authority has also invested in pooled funds (property funds; equity funds; multi-asset funds) and for the purpose of enhancing returns. Pooled funds will be held for minimum of five years to offset any premature exit costs. A lesser period would be considered only if it is cost neutral to the Authority.

5.11.3 **The 2023/24 Investment Strategy** will continue with the lending approach as set out in the 2022/23 Strategy.

5.11.4 This Strategy (2023/24), 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 **3.50% (the base rate).** Creditworthiness approach, investment periods and the rationale for the target rate are explained in ***Appendix 3.*** The Authority's objective when investing cash is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.11.5 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 2023/24 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 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing. The Authority does not currently have an ESG policy which includes ESG scoring at an investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5.11.14 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.

5.11.15 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.

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

5.12 Policy on Use of Financial Derivatives

5.12.1 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.

5.12.2 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.

5.13 Non-Treasury Investments

5.13.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. As a result of a change in PWLB terms, PWLB loans are no longer available to local authorities planning on buying investment assets primarily for yield.

5.14 Treasury Management Adviser

5.14.1 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).

5.15 Treasury Management Training

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

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

5.15.2 Officers will look to schedule Member training for Spring 2023 Further training will be undertaken as and when required.

5.16 PRUDENTIAL INDICATORS

5.17 Capital Financing Requirement

5.17.1 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.

5.17.2 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.

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

5.18 Prudential Indicators – "Prudence"

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

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

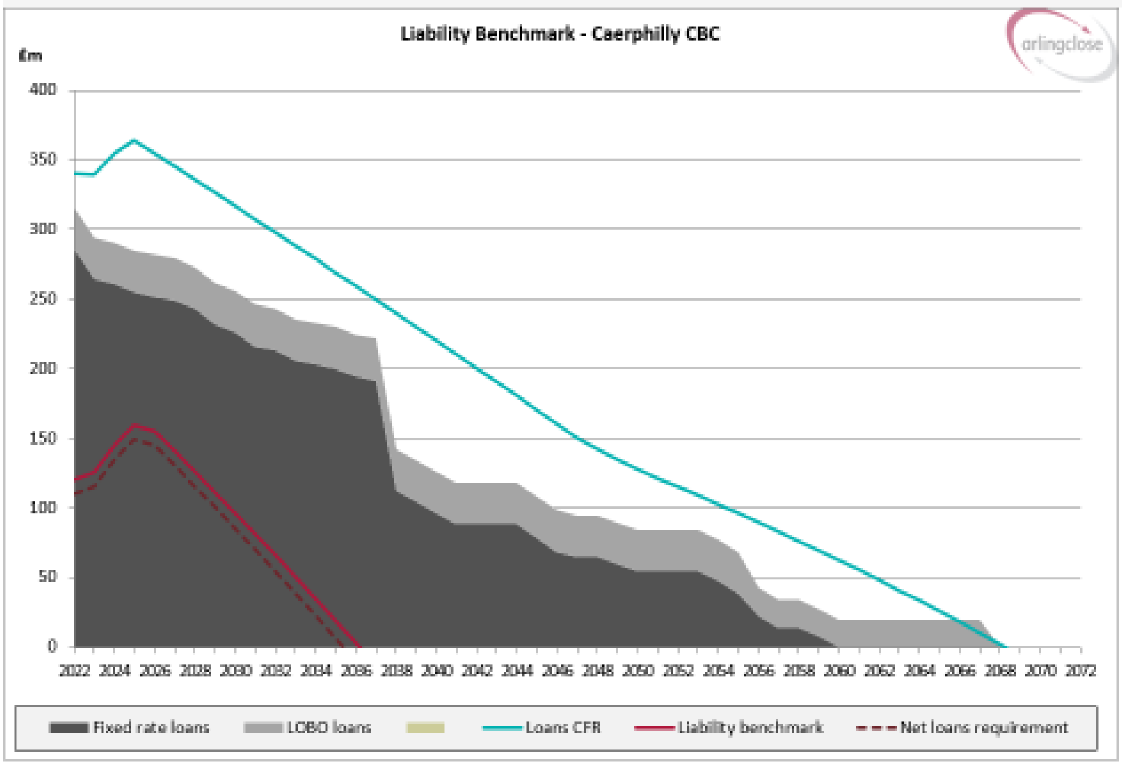
5.19.1 There is a requirement to analyse and report the capital financing costs and express those costs as a percentage of the net revenue streams of the Authority.

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

5.19.3 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of a 1.5% increase applied to the rental income (using 2021/22 as a base), less an adjustment for estimated reduction in housing stock as a result of the "Right to Buy" sales.

5.20 Prudential Indicators –Liability Benchmark [Appendix 7]

5.20.1 This is a new Prudential Indicator that is required and represents the cumulative amount of external borrowing the Council must hold to fund it's current capital and revenue plans whilst keeping treasury investments at the minimum level to manage day-to-day cashflow.



5.21 Capital Expenditure and Funding

5.21.1 The summary Capital Expenditure and funding, as shown in ***Appendix 7*** of this report has been considered in “the Budget Report”.

5.21.2 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 £4.82m in respect of the 2023/24 financial year, together with General Capital Grant funding of £4.95m.

5.21.3 For calculation purposes, it has been assumed that the supporting borrowing element of funding support and the capital grant received will return to 2022/23 levels for 2024/25 and for 2025/26. HRA provisional values for the years 2024-2026 are based on the 2022/23 allocation of the Major Repairs Allowance of £7.30m and assumed to continue at this level for future years.

5.22 Minimum Revenue Provision (MRP)

5.22.1 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.

5.22.2 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.

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

5.23 Other Local Issues

5.24 The Authority’s Banker

5.24.1 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.

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

5.25 Policy on Apportioning Interest to the HRA

5.25.1 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.

5.26 Markets in Financial Instruments Directive

5.26.1 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.

5.27 IFRS 9 Classification

5.27.1 Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost. Pooled fund investments will be elected to be carried at 'Fair Value through Other Comprehensive Income (FVOCI).

6. ASSUMPTIONS

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

6.2 It is currently assumed that investment cash balances remain at a minimum of £100m throughout 2023/24 in order to deliver the investment returns stated within this report.

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

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

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

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

8. FINANCIAL IMPLICATIONS

8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications.

10. CONSULTATION

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

11. STATUTORY POWER

11.1 Local Government Act 1972

Author:	Rhiann Williams – Group Accountant -Treasury Management & Capital
Consultees:	Stephen Harris – Head of Financial Service and S151 Officer Andrew Southcombe – Finance Manager, Corporate Finance Robert Tranter- Head of Legal Services and monitoring Officer Cllr E. Stenner – Cabinet Member for Finance and Performance

Appendices:

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

Appendix 1

Local Government Treasury Management Definitions

- **Investment**

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

- **Long-term Investment**

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

- **Credit Rating Agency**

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

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

- **Specified Investment**

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

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

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

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

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

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

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

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

- **Non-specified Investments**

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

Appendix 2 Interest Rate Forecasts

Bank Rate (Forecasts as at January 2023 and subject to change)

	Arlingclose (Central case)
2023/24 Q1	4.00%
2023/24 Q2	4.25%
2023/24 Q3	4.25%
2023/24 Q4	4.25%
2024/25	3.50%
2025/26	3.25%

PWLB (Forecasts as at January 2023 and subject to change- Source Arlingclose (Upside case)

	Q1 – 2023/24	Q2 – 2023/24	Q3 – 2023/24	Q4 – 2023/24
5 Year	5.30%	5.60%	5.70%	5.80%
10 Year	5.20%	5.40%	5.50%	5.60%
20 year	5.55%	5.65%	5.75%	5.85%
50 Year	5.30%	5.40%	5.50%	5.60%

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

Budget Period	Investment Returns	Borrowing Rates (PWLB 50 Years)
2023/24	3.00%	5.60%
2024/25	3.00%	5.60%
2025/26	3.00%	5.60%
2026/27	3.00%	5.60%

Appendix 3 Credit Risk Policy

Bank Bail-In

Bail-in legislation has now been fully implemented in the European Union and major economies around the World. In addition, the largest UK banks have ring-fence their retail and investment banking functions into separate legal entities during 2018 and 2019. The impact of the structural change on the banks credit rating was minimal. Bail-In proposals, an approach where retail customers of a failing bank are protected under compensation schemes (up to a threshold) and losses are covered by investor's equity capital in the first instance, followed by junior debt and then senior unsecured debt and deposits. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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

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

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

Counterparty Criteria

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

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

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

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

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

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

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

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

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

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

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

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

Banks Unsecured: Call accounts, term deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank [Barclays Bank Plc] or the Debt Management Office. The use of Banks unsecured instruments will be limited to aid the management of cashflow liquidity. In accordance with advice from the Authority's Treasury Management adviser, International banks will also be considered.

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

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

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

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

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed. Consideration will also be given to providing liquidity facilities, such as a revolving credit facility, subject to a detailed credit assessment of the Registered Provider.

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

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Investment periods

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

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

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

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

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

  The Authority will continue to invest in long-term investments. Excluding the UK Government, It is suggested that no more than £20m be placed with any one institution with duration as set out in the table above. The Authority will not have more than £60m deposited in long-term investments (the Upper Limit).

Target Rate

Forecasts of base rate can be quite diverse as illustrated by the table in ***Appendix 2***. In view of the uncertainty inherent in such predictions, it would be imprudent to set a target rate which may be difficult to achieve. In view of the foregoing, it is proposed to set a target rate of return for short-term deposits in 2023/24 of at least **3.00%.**

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

Appendix 4- Specified and Non-Specified Investments

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

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

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

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

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

Authorisation for the in-house team

A. Short-term Investments

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

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

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

B. Long-term Investments

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

C. General Authorisations

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

The Authority's Treasury Management Adviser continually monitors the movement of interest rates and can predict the changes in PWLB rates. On occasions it may be necessary to respond to advice from the Adviser to take up PWLB loans (whether as part of the current years funding requirement, or as part of a rescheduling exercise) before interest rates increase and make the necessary application to the PWLB before their cut-off time. In these circumstances, it is not always possible to have access to the Head of Financial Services & S151 Officer, at short notice, for approval.

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

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

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Appendix 5 Treasury Management Strategy Indicators 2023/24-2024/25

	Budget 2023-24	Budget 2024-25	Budget 2025-26
	£000	**£000**	**£000**
Authorised limit for external debt -			
Borrowing	501,210	495,853	461,085
Other long term liabilities	21,989	19,672	17,278
Total	**523,198**	**515,525**	**478,363**
Operational boundary for external debt -			
Borrowing	400,968	396,683	368,868
Other long term liabilities	21,989	19,672	17,278
Total	**422,957**	**416,355**	**386,146**
Capital Financing Requirement	381,503	411,809	412,962
Upper limits for interest rate exposure			
Principal outstanding on borrowing	400,968	396,683	368,868
Principal outstanding on investments	100,000	100,000	100,000
Net principal outstanding	**300,968**	**296,683**	**268,868**
Fixed rate limit – 100%	300,968	296,683	268,868
Variable rate limit – 30%	90,290	89,005	80,660
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 2023-24**	**Budget 2024-25**	**Budget 2025-26**
	£000	**£000**	**£000**
Outstanding Borrowing	400,968	396,683	368,868
Other long term liabilities	21,989	19,672	17,278
Gross Debt	**422,957**	**416,355**	**386,146**

Less investments	100,000	100,000	100,000
Net Debt	**322,957**	**316,355**	**286,146**

Gross and The CFR	**Budget 2023-24**	**Budget 2024-25**	**Budget 2025-26**
	£000	**£000**	**£000**
Gross Debt	422,957	416,355	386,146
CFR	381,503	411,809	412,962

Appendix 6 - Prudential Indicators - Capital Finance

Ratio of Financing costs to net revenue stream	**Budget 2023-24**	**Budget 2024-25**	**Budget 2025-26**
General Fund	**£000**	**£000**	**£000**
Principal repayments	2,943	3,308	3,668
Interest costs	7,881	8,252	8,720
Debt Management costs	42	43	43
Rescheduling discount			
Investment income	(3,343)	(1,443)	(1,443)
Interest applied to internal balances	812	812	812
Total General Fund	**8,336**	**10,972**	**11,801**
Net revenue stream	**422,327**	**435,633**	**442,904**
Total as percentage of net revenue stream	**1.97%**	**2.52%**	**2.66%**
Housing Revenue Account			
Principal repayments	1,864	1,827	1,791
Interest costs	5,930	5,783	5,582
Rescheduling discount			
Debt Management costs	38	39	41
Total HRA	**7,833**	**7,649**	**7,414**
Net revenue stream	**53,075**	**56,940**	**58,332**
Total as percentage of net revenue stream	**14.76%**	**13.43%**	**12.71%**

Capital financing requirement [end of year position]	**Budget 2023-24**	**Budget 2024-25**	**Budget 2025-26**
	£000	**£000**	**£000**
Council Fund	225,469	230,405	235,197
Housing Revenue Account	156,034	181,403	177,766
Total Authority	**381,503**	**411,809**	**412,962**

Liability Benchmark	**Budget 2023-24**	**Budget 2024-25**	**Budget 2025-26**
	£000	**£000**	**£000**
Capital Financing Requirement	381,503	411,809	412,962
Less Balance Sheet Resources	(219,600)	(214,600)	(209,600)
Net Loans Requirement	**161,903**	**197,209**	**203,362**
Plus Liquidity allowance	10,000	10,000	10,000

Liability Benchmark	**171,903**	**207,209**	**213,362**

Appendix 7 - Capital Expenditure and Funding

	Budget 2023-24	Budget 2024-25	Budget 2025-26
Expenditure	**£000**	**£000**	**£000**
Council Fund	11,636	9,668	9,599
Housing Revenue Account	64,865	54,519	19,568
Total	**76,501**	**64,187**	**29,167**
Funding			
Surplus/ (Deficit) Balance b/f	287		
Borrowing - Supported (GF)	4,821	4,829	4,829
General Capital Grant - WG	4,951	3,328	3,328
Internal Borrowing	-	-	-
RCCO Budget	128	128	128
Capital underspends frm previous years		-	-
General Fund working balances	-	-	-
One off funding- MRP Review	1,449	1,383	1,314
RCCO- (HRA)	30,469	18,723	12,272
Unsupported Borrowing HRA- WHQS			
Unsupported Borrowing HRA- Affordable Housing	27,100	28,500	
Major Repairs Allowance (HRA)	7,296	7,296	7,296
Total	**76,501**	**64,187**	**29,167**
Surplus C/f			

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Appendix 8 MRP 2022/23 Policy

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

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

The WG Guidance requires the Authority to approve an Annual MRP Statement each year. The Authority's MRP policy for 2022/23 is stated below.

Supported Borrowings

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

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

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

Unsupported Borrowings

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

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

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

MRP Charges Relating to Other Capital Expenditure

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

2 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a

prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

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

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

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

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

Capital expenditure incurred during 2023/24 that is financed by debt will not be subject to an MRP charge until 2024/25.