



**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL
COUNCIL**

27th MARCH 2019

**2019/20 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL
INDICATORS**

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

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1.0 PURPOSE OF THE REPORT

- 1.1 The purpose of the Capital Strategy report is to provide a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with an overview of the associated risk, its management and the implications for future financial sustainability.

2.0 RECOMMENDATIONS

It is recommended that Members:

- 2.1 Approve the Capital Strategy report incorporating the Prudential Indicators.

3.0 REASONS FOR RECOMMENDATION

- 3.1 To ensure compliance with the 2017 edition of the Prudential Code requiring local authorities to produce a Capital Strategy Report.

4.0 BACKGROUND

- 4.1 The Prudential Code¹ sets out a framework for self-regulation of capital spending for local authorities, in effect, allowing Councils to invest in capital

¹ Prudential Code - produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is underpinned by the Local Government Act 2003 and the Capital Financing Regulations (Wales) 2004

projects without any limit as long as they are affordable, prudent and sustainable.

- 4.2 The 2017 edition of The Prudential Code introduced the requirement for a new report to be produced by local authorities called a Capital Strategy.
- 4.3 In accordance with this new requirement, the Council has developed this Capital Strategy document to support its strategic and financial planning arrangements, and also complement other key strategies and plans in place. For Members information, the Capital Strategy does not duplicate information included within other key strategies and plans such as the Treasury Management Strategy, Three Year Capital Programme and Corporate Plan 2016 – 2020 ‘the Way Ahead’, and should be read in conjunction with them.
- 4.4 The Council’s Capital Strategy covers the following areas:
- Strategic Context
 - Capital Expenditure and Financing
 - Asset Management
 - Asset Disposals
 - Treasury Management
 - Other Long Term Liabilities
 - Revenue Budget Implications
 - Knowledge and Skills

5.0 STRATEGIC CONTEXT

- 5.1 The Council’s Capital Strategy is inherently linked to and informed by other key strategy documents.

[Corporate Plan 2016-20 ‘The Way Ahead’](#)

- 5.2 Capital investment by the Council is guided by the priorities within the Corporate Plan that sets out its ambition through a vision ‘*For a County Borough that has high aspirations, is confident and promotes opportunity for all*’ and focussing on three priorities:
- Economy – Building a strong economy;
 - People – Promoting independence and positive lives for everyone; and
 - Place – Creating neighbourhoods where people are proud to live and work.

Other Key Strategies and Plans

- 5.3 The Council also has a number of other key strategies and plans that inform service delivery and its programme of capital investment. These include²:

² A brief summary of the strategy or plan is provided where it is not covered elsewhere within the Capital Strategy

- Revenue Budget Strategy – setting out the Council’s annual revenue budget requirement that includes its Capital Financing budget to support the delivery of the Capital Programme. The Council’s Revenue Budget Strategy 2019/20 can be viewed by clicking [here](#).
- Three Year Capital Programme – setting out capital expenditure plans and funding. The Council’s Capital Programme 2019/20 to 2021/22 can be viewed by clicking [here](#).
- Medium Term Financial Plan (MTFP) – setting out a forecast of revenue spending and funding for the period 2018/19 to 2021/22 (and includes a Capital Financing budget projection over this period). The latest MTFP can be viewed by clicking [here](#).
- Treasury Management Strategy.
- Corporate Asset Management Plan.
- Service Delivery Plans – a plan for each service area setting out key priorities, measures and risks.
- Cwm Taf Well-Being Plan - a long term partnership plan for the Cwm Taf area (Rhondda Cynon Taf and Merthyr Tydfil) in line with the Well-Being of Future Generations Act. The Cwm Taf Well-being Plan can be viewed by clicking [here](#).

5.4 In January 2018 the Council set out strategic capital investment priorities covering a 3 to 5 year period over and above its normal capital programme. This commitment, representing an investment of over £300M, was aligned to the Council’s strategic plans by supporting long term investment in highways infrastructure, 21st Century Schools, new housing, community assets and town centre and economic regeneration.

6. CAPITAL EXPENDITURE AND FINANCING

6.1 Capital expenditure is where the Council spends money on assets such as property or vehicles that will be used for more than one year. The Council does have some limited discretion over what it deems to be capital expenditure, for example, assets costing less than £10k are not capitalised and are charged to revenue in-year.

Capital Programme 2019/20 to 2021/22

6.2 The Council set its capital programme on 6th March 2019 totalling £173.202M over three years.

- 6.3 All capital expenditure must be financed either from external sources (e.g. grants and third party contributions), the Council's own resources (e.g. revenue and capital receipts) or borrowing (e.g. loans, leasing). A summary of available capital resources for the Capital Programme 2019/20 to 2021/22 is included at 'Indicator 1 : Capital Expenditure'.
- 6.4 The Capital Programme 2019/20 to 2021/22 has prioritised investment in line with Corporate Plan priorities. This includes:
- Economy – 21st Century schools; redevelopment of the Taff Vale site and Pontypridd YMCA (both located in Pontypridd); development of modern industrial units at Robertstown and Coed Ely; up grading town centre buildings; and on-going investment to support Strategic Opportunity Areas as agreed by Cabinet on [21st September 2017](#) (i.e. Cynon Gateway – energising the region; the Wider Pontypridd, Treforest – Edge of the City, heart of the region; Pontypridd Town – pivotal to the region; A4119 corridor – regional Rhondda gateway; and Llanilid on the M4 - driving the regional economy).
 - People – Extracare facilities, parks and green spaces, play areas, leisure centre enhancements and King George V running track.
 - Place – Highways structures (bridges and walls), road resurfacing and transport infrastructure schemes (e.g. Mountain Ash cross valley link and Llanharan by-pass).
- 6.5 There is a statutory duty under the Local Government Act 2003 for the Council to determine and keep under review how much it can afford to borrow. The Council must have due regard to the **Prudential Code** when setting its affordable borrowing limit ("Authorised Limit"). This requires the Council to ensure that total capital investment and borrowing remains affordable, sustainable and prudent.
- 6.6 To comply with both the Prudential Code and Treasury Management Code, the Council has to determine and set Prudential and Treasury Management Indicators in relation to capital expenditure, external debt and treasury management activities. The purpose of the indicators is to provide a framework for Capital Expenditure decision making.
- 6.7 To comply with the Codes every Council is required to agree a set of prudential indicators prior to the start of the financial year. These indicators must be prepared by the Chief Finance Officer and presented to Council, as part of the budget setting cycle. The indicators cover a three year period and must be monitored during the year.
- 6.8 The indicators are purely for internal use by the Council and are not intended for use as comparators (i.e. between Councils) nor should they be viewed individually. The real value will arise as a result of monitoring the movement in indicators over time.

- 6.9 Capital Expenditure is predominantly funded by Welsh Government support, capital grants and capital receipts. The remaining balance of expenditure will form a borrowing need. General capital funding from the Welsh Government takes the form of General Capital Grant plus “supported borrowing”. Any amounts of capital expenditure above these limits will be classed as unsupported and will have an impact on the Council Tax (unless extra borrowing costs are funded through existing budgets).
- 6.10 The following indicators are required (by the Prudential Code) to be approved:
- Capital Expenditure
 - Capital Financing Requirement
 - External Debt
 - Gross Debt and the Capital Financing Requirement
 - Authorised Limit
 - Operational Boundary
 - Ratio of Financing Costs to Net Revenue Stream

Capital Expenditure and the Capital Financing Requirement

- 6.11 The Capital Expenditure plans of the Council will be financed through various sources such as capital receipts, grants and other contributions. The remaining element which cannot be immediately financed from resources will constitute our borrowing requirement. The estimated level of available capital resources is provided in summary as the Capital Expenditure Indicators below.

Indicator 1 : Capital Expenditure

	2018/19 Projected Outturn £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M
Supported spend	85.499	81.643	23.623	18.957
Unsupported spend	42.799	37.047	7.932	4.000
Total spend	128.298	118.690	31.555	22.957
Financed by:-				
Borrowing	49.771	43.953	14.838	10.906
Other Capital Resources (e.g. Grants, Capital Receipts)	78.527	74.737	16.717	12.051

- 6.12 The Capital Financing Requirement (CFR) represents the Council’s underlying need to borrow for capital purposes. The CFR is capital expenditure that has not yet been paid for from either revenue or capital resources.
- 6.13 The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure and decisions taken during the budgeting cycle.
- 6.14 The unsupported element of borrowing relates to the capital expenditure freedom allowed under the Prudential Code. The Prudential Code anticipates

that these freedoms would enable Councils to enter into projects such as "spend to save" schemes or decisions to allocate additional resource from revenue to capital, to enable service / asset enhancements. Members have already shown their willingness to use this option for schemes such as investment in schools.

6.15 The main factor limiting the Council's ability to undertake unsupported capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, i.e. both borrowing costs and running costs. In other words, can the Council afford the implications of the unsupported capital expenditure?

6.16 The Council's expectations for the CFR in the next three years is shown below.

Indicator 2 : Capital Financing Requirement (CFR)

	2018/19 31/03/19 Projected Outturn £M	2019/20 31/03/20 Estimate £M	2020/21 31/03/21 Estimate £M	2021/22 31/03/22 Estimate £M
CFR	473.838	505.600	506.538	503.075
Net movement in CFR		31.762	0.938	(3.463)

6.17 A key risk is that the level of Welsh Government support has been estimated and is, therefore, subject to change. Similarly, some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this time. Officers will continue to monitor the totality of capital resources and will report back to Members if further action is required.

6.18 The expected external debt for each year is as detailed below.

Indicator 3: External Debt

	2018/19 31/03/19 Projected Outturn £M	2019/20 31/03/20 Estimate £M	2020/21 31/03/21 Estimate £M	2021/22 31/03/22 Estimate £M
Borrowing	338.697	378.447	417.697	457.947
Other long term liabilities	0.507	0.584	0.583	0.583

Total External Debt 31 st March	339.204	379.031	418.280	458.530
Net movement in External Debt		39.827	39.249	40.250

6.19 Long Term Liabilities include the Council's future finance lease payments.

Limits to Borrowing Activity

6.20 The first key control over the Council's activity is to ensure that, over the medium term, borrowing will only be for a capital purpose. The Council needs to ensure that external borrowing does not exceed the total of the capital financing requirement in the preceding year plus the estimate of the additional capital financing requirement for the next three financial years. This allows some flexibility within a three-year period to deliver an effective treasury management strategy.

Indicator 4: Gross Debt and the Capital Financing Requirement

	2018/19 31/03/19 Projected Outturn £M	2019/20 31/03/20 Estimate £M	2020/21 31/03/21 Estimate £M	2021/22 31/03/22 Estimate £M
Gross Borrowing	339.204	379.031	418.280	458.530
Capital Financing Requirement	473.838	505.600	506.538	503.075

6.21 As the above shows, gross borrowing is below the relevant CFR for current and future years. This is termed "under-borrowing". This view takes into account current commitments, existing plans and the proposals in the latest 3 year capital programme. Again, this indicator will be monitored and revised at Council, if necessary, during the three-year period.

6.22 The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set, monitored and revised by Members. It reflects the maximum level of borrowing to fund existing capital commitments, which could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some added headroom for unexpected movements.

6.23 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans or those of a specific Council. The Government has not yet exercised this control.

Indicator 5 : The Authorised Limit

	2018/19 31/03/19 Projected Outturn £M	2019/20 31/03/20 Estimate £M	2020/21 31/03/21 Estimate £M	2021/22 31/03/22 Estimate £M
Gross Borrowing Limit	338.697	510.000	510.000	510.000
Other long term liabilities	0.507	2.000	2.000	2.000
Authorised Limit	339.204	512.000	512.000	512.000

- 6.24 The Operational Boundary is based on the probable external debt during the course of the year; actual borrowing could vary around this boundary, for short times, during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Indicator 6 : The Operational Boundary

	2018/19 31/03/19 Projected Outturn £M	2019/20 31/03/20 Estimate £M	2020/21 31/03/21 Estimate £M	2021/22 31/03/22 Estimate £M
Gross Borrowing Limit	338.697	380.000	425.000	460.000
Other long term liabilities	0.507	1.000	1.000	1.000
Operational Boundary	339.204	381.000	426.000	461.000

Affordability Prudential Indicators

- 6.25 Previous sections have covered overall capital and control of borrowing indicators, but there is also a requirement to assess the affordability of capital investment plans. This provides an indication of the impact of the capital investment plans on the overall Council finances.
- 6.26 The Ratio of Financing Costs to Net Revenue Stream identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the "net revenue stream". The net revenue stream for the General Fund is the amount collectable from Council Tax payers added to the Council's Revenue Support Grant (RSG) and Non Domestic Rates (NDR). The key use of this indicator is to compare trends in the ratio of financing costs to the net revenue stream, over time.

Indicator 7 : Ratio of Financing Costs to Net Revenue Stream

	2018/19 Comparator	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	4.65%	4.86%	5.31%	5.49%

Governance

- 6.27 The rolling Three Year Capital Programme is constructed in line with the Council's agreed strategies and plans on an annual basis, reviewed by Cabinet and if deemed acceptable, is recommended to full Council for approval each year.
- 6.28 Throughout the year, capital programme updates are made public through the Council's quarterly Performance Reports that are reported to Cabinet for approval and thereafter scrutinised by the Finance and Performance Scrutiny Committee.

7.0 ASSET MANAGEMENT

- 7.1 To ensure that capital assets are managed in a proactive and efficient way, and continue to be of long term use, the Council has a Corporate Asset Management Plan (CAMP). The CAMP outlines the vision and approach to the strategic management of the assets of the Council and sets out the primary aims: to maximise the benefits derived from the Council's land and buildings; to support the delivery of its priorities; to meet service requirements; to raise revenue through rental income; and to comply with regulatory and statutory duties.

8.0 ASSET DISPOSALS

- 8.1 When a capital asset is no longer needed it may be sold so that proceeds, known as capital receipts, can be spent on new assets or to repay debt. The capital receipts estimated to be received within the Capital Programme 2019/20 to 2021/22 are set out below.

Estimated Capital Receipts

	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M
General Fund Capital Receipts	11.925	4.826	4.826

9.0 TREASURY MANAGEMENT

- 9.1 CIPFA defines Treasury Management as “The management of the local authority’s 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.”
- 9.2 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. 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 Council’s bank current account.
- 9.3 The Council’s Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision (MRP) Statement for 2019/20 (from hereon, the Treasury Management Strategy) is being considered alongside this report on the same agenda.

Borrowing Strategy

- 9.4 The Council’s policy will continue to be to maximise “internal borrowing”, running down cash balances and foregoing interest earned at historically low rates. We will though take the opportunity to lock in longer term debt as and when the opportunity arises, in line with advice from our Treasury Advisors.
- 9.5 Where the Council does need to borrow to fund the Capital Programme, its main objective is to achieve a low but certain cost of finance while retaining flexibility should there be changes in the financial market. The Council seeks a balance between lower cost short term loans and longer term fixed rate loans where the future cost is known and secured.

Investment Strategy

- 9.6 The Council’s policy on treasury investments, in line with the Welsh Government [Guidance on Local Government Investments](#), is to prioritise security and liquidity over yield and to focus on minimising risk rather than maximising returns.
- 9.7 Cash that is likely to be spent in the near term is invested with the Debt Management Office (DMO) and other public bodies. Longer term investments include lending to organisations, subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements. These type of investments provide support for the delivery of investment aligned to the Council’s own strategic objectives.

Governance

- 9.8 Decisions on investments are made by the S151 Officer in line with the criteria and limits approved by Council in the Treasury Management Strategy. Property and other regeneration and commercial investments can be capital expenditure

and therefore will be approved via the appropriate decision making arrangements.

- 9.9 Following approval by full Council, the Treasury Management Strategy and the Capital Strategy Report incorporating Prudential Indicators are reported to the Finance and Performance Scrutiny Committee at the start of each financial year. During a financial year, a Mid-Year Treasury Management Stewardship Report and Annual Treasury Management Review Report (following year-end) is reported to full Council and thereafter reported to and scrutinised by the Finance and Performance Scrutiny Committee.

10.0 OTHER LONG TERM LIABILITIES

- 10.1 The Council is committed to making future payments to cover its pension fund liabilities (deficit) on the Pensions Reserve of £612M within the Council's balance sheet, under unusable reserves.
- 10.2 The Council has short term and long term provisions set aside amounting to £4.1M, the majority of which (£3.8M) is to cover Insurance and Land Compensation claims.
- 10.3 The Council's latest audited Statement of Accounts for the 2017/18 financial year can be viewed by clicking [here](#).

11.0 REVENUE BUDGET IMPLICATIONS

- 11.1 The Council's borrowing or debt is only a temporary source of finance, since loans and leases must be repaid over time, usually from Revenue which is known as the Minimum Revenue Provision (MRP). The interest costs and principal repayment of debt, net of any investment income, are known as financing costs and are determined in line with the Council's MRP policy.
- 11.2 The Council's net capital charges form part of the revenue budget and actual spend against budget is reported to Cabinet as part of quarterly Performance Reports. They are also set out within the Mid-Year Treasury Management Stewardship Report and Annual Treasury Management Review Report. The Council also has a Treasury Management Earmarked Reserve in order to mitigate short / medium term volatility against this budget.

12.0 KNOWLEDGE AND SKILLS

- 12.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also employ Treasury Management advisors to provide a range of specialist services including interest rate analysis, investment advice and technical support.

13.0 EQUALITY AND DIVERSITY IMPLICATIONS

- 13.1 The report provides a high level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risks are managed. As a result, no Equality Impact Assessment is required for the purposes of this report.

14.0 CONSULTATION

- 14.1 Subject to approval of the Capital Strategy, this Report will be presented to the Finance and Performance Scrutiny Committee for review, challenge and where deemed required, the scrutiny of specific areas in more detail.

15.0 FINANCIAL IMPLICATION(S)

- 15.1 The financial results / implications of the Council's Treasury Management arrangements will be incorporated into quarterly Performance Reports during the year.

16.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

- 16.1 The report ensures the Council complies with its legal duty under the Local Government Act 2003 and in doing so is in line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

17.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

- 17.1 This report evidences the progress made in delivering the Council's Corporate Plan – '*The Way Ahead*' in particular through supporting the 'Living Within Our Means' theme by pursuing optimum treasury management, capital and revenue performance or return at the same time as managing associated risk.
- 17.2 The report also supports the Well-being of Future Generations Act in particular 'a globally responsible Wales' through responsible management and investment of the Council's resources.

18.0 CONCLUSIONS

- 18.1 The Capital Strategy Report incorporating Prudential Indicators sets out a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with

an overview of the associated risk, its management and the implications for future financial sustainability.

- 18.2 With regards to the Prudential and Treasury Management Indicators, these will be monitored throughout the financial year with details reported to Members as part of the Council's quarterly performance reporting arrangements and scrutiny process.

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCIL 27th MARCH 2019

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

**Item: 2019/20 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL
INDICATORS**

Background Papers

- [6th March 2019](#) Council meeting – Report: The Council’s Capital Programme 2019/20 – 21/22.
- [6th March 2019](#) Council meeting – Report: The Council’s 2019/20 Revenue Budget

Officer to contact: Barrie Davies (Director of Finance and Digital Services)
