



**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2021 / 2022**

**COUNCIL**

**9<sup>th</sup> March 2022**

**2022/23 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL  
INDICATORS**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**  
**AUTHOR:- BARRIE DAVIES (01443) 424026**

**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 2021 edition of the Prudential Code requiring local authorities to produce a Capital Strategy Report.

## **4.0 BACKGROUND**

4.1 The framework established by the Prudential Code<sup>1</sup> supports local strategic planning, local asset management planning and option appraisal. The objectives of the Prudential code are to ensure:

- Capital and investment plans are affordable and proportionate;
- External borrowing and other long-term liabilities are within prudent and sustainable levels;
- The risks associated with investments for commercial purposes are proportionate to their financial capacity; and
- Treasury management decisions are taken in accordance with good professional practice.

4.2 The requirement for local authorities to produce a Capital Strategy was introduced by the 2017 edition of the Prudential Code. The Code has been updated in 2021 primarily to ensure that local authorities do not borrow for the primary purpose of commercial return. In accordance with this change, the Code introduces a new Prudential Indicator “Net Income from Commercial and Service Investments to Net Revenue Stream”.

4.3 In support of the above, HM Treasury amended the PWLB guidance for borrowing in August 2021, whereby if a local authority is planning to acquire investment assets bought primarily for yield in any of the following three years, the authority will be unable to borrow from the PWLB to finance any expenditure in its capital programme.

4.4 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. 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 2020 – 2024, and should be read in conjunction with them.

4.5 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

---

<sup>1</sup> 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

## 5.0 **STRATEGIC CONTEXT**

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

### [The Council's Corporate Plan 2020-24 "Making a Difference"](#)

5.2 Capital investment by the Council is guided by the priorities within the Corporate Plan that sets out its ambition through a vision 'To be the best place in Wales to live, work and play, where people and businesses are independent, healthy, and prosperous' and focussing on three priorities:

1. Ensuring **People: *are independent, healthy and successful;***
2. Creating **Places: *where people are proud to live, work and play; and***
3. Enabling **Prosperity: *creating the opportunity for people and businesses to: be innovative; be entrepreneurial; and fulfil their potential and prosper.***

### 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 include<sup>2</sup>:

- 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 recommended Revenue Budget Strategy 2022/23 is to be reported to full Council on 9<sup>th</sup> March 2022.
- Three Year Capital Programme – setting out capital expenditure plans and funding. The recommended Capital Programme 2022/23 to 2024/25 is to be reported to full Council on 9<sup>th</sup> March 2022.
- Medium Term Financial Plan (MTFP) – setting out a forecast of revenue spending and funding for the period 2021/22 to 2024/25 (and includes a Capital Financing budget projection over this period). The latest MTFP can be viewed by clicking [here](#) and references, amongst other things, that 85% of the Council's 2021/22 revenue budget and 98% of the three-year Capital Programme (2021/22 to 2023/24) are allocated to Corporate Plan priority areas.
- Treasury Management Strategy.
- Corporate Asset Management Plan, Climate Change and Carbon Reduction Plans, Sustainable Communities for Learning Programme (formerly 21<sup>st</sup> Century Schools), Regeneration Plans and Highways Improvement Programme.
- Service Delivery Plans – a plan for each service area setting out key priorities, measures and risks.

---

<sup>2</sup> A brief summary of the strategy or plan is provided, where appropriate / not covered elsewhere within the Capital Strategy

- 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 The importance of on-going investment has been recognised by the Council with over £129M already invested (over and above the normal Capital Programme) in areas supporting key Corporate Plan priorities since October 2015, the latest investment of £6.5M being agreed by Council in September 2021. Further investment of £14.471 is proposed as part of the updated Capital Programme 2022/23 to 2024/25.

## **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 2022/23 to 2024/25

6.2 The Council is to consider its capital programme on 9<sup>th</sup> March 2022 totalling a proposed £148.770M investment 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 2022/23 to 2024/25 is included at 'Indicator 1 : Capital Expenditure'.

6.4 The Council's Capital Programme continues to provide a long term funding commitment to the economic regeneration and well-being of the County Borough and in doing so supports the Council's Corporate Plan Priorities.

6.5 In addition to the above, sustained investment has been maintained across a range of funding streams, supported by external funding and the Corporate Plan Investment Priorities. This has enabled a wide range of regeneration activity to be delivered to benefit the local economy.

6.6 The Council will continue to work with partners to develop and progress exciting and innovative schemes such as:

- Development of modern business accommodation with new units at Robertstown, Aberdare;
- Townscape Enhancements across our key town centres – a targeted

approach to acquiring, redeveloping and upgrading town centre buildings for increased business and commercial use and continuing to improve the quality of the townscape providing business investment and employment growth. This will be supported by the development and delivery of strategies and placemaking plans for our key town centres;

- Development of a new integrated Transport Hub at Porth as part of the Porth Town Centre Regeneration Strategy;
- New sources of funding are being accessed to bring forward investment such as the UK Government Levelling Up Fund where successful bids have been made for the Muni Arts Centre Redevelopment, Porth Transport Hub and A4119 Dualling projects;
- Strategic Opportunity Areas – a number of Strategic Opportunity Areas have been developed to deliver economic growth and job creation in Rhondda Cynon Taf. These areas are:
  - Cynon Gateway – Energising the Region;
  - The Wider Pontypridd, Treforest – Edge of the City, heart of the Region;
  - Pontypridd Town – Pivotal in the Region;
  - A4119 Corridor – Regional Rhondda Gateway; and
  - Llanilid on the M4 – Driving the Regional Economy.
- A long term strategic investment programme of modernisation to create school environments that meet the needs of our communities and provide the best learning provision and outcomes for young people and the wider community.
- An on-going programme of investment to support residents' health and well-being, including:
  - ExtraCare – supporting people's independence through a more modern form of housing which can better meet the support needs of residents as they get older; and
  - Leisure Centres, parks and green spaces and play areas – an on-going programme of investment to provide upgraded, modern and safe facilities for residents to use, enjoy and support their health and well-being.

6.7 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, proportionate, sustainable and prudent.

6.8 To comply with both the Prudential Code and Treasury Management Code, the Council must determine and set Prudential and Treasury Management Indicators in relation to capital expenditure, external debt, investments and treasury management activities. The purpose of the indicators is to provide a framework for Capital Expenditure decision making.

- 6.9 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.
- 6.10 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.
- 6.11 Capital Expenditure is predominantly funded by Welsh Government support, capital grants and capital resources. General capital funding from the Welsh Government takes the form of General Capital Grant plus “supported borrowing”. The remaining balance of expenditure will form a borrowing need and be classed as unsupported and will have an impact on the Council’s budget requirement (unless extra borrowing costs are funded through existing budgets).
- 6.12 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
  - Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream (new indicator for 2022/23)

Capital Expenditure and the Capital Financing Requirement

- 6.13 The Capital Expenditure plans of the Council will be financed through various sources such as capital resources, 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**

	2021/22 Projected Outturn	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate

	£M	£M	£M	£M
Supported spend	113.577	82.498	31.139	22.342
Unsupported spend	6.951	11.502	0.289	1.000
Total spend	120.528	94.000	31.428	23.342
Financed by:-				
Borrowing	13.824	18.369	7.156	7.867
Other Capital Resources (e.g. Grants, Capital Receipts)	106.704	75.631	24.272	15.475

- 6.14 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.
- 6.15 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.
- 6.16 The unsupported element of borrowing relates to the capital expenditure freedom allowed under the Prudential Code and enables Councils, subject to agreed reporting and approval arrangements, 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 shown their willingness to use this option for schemes such as investment in schools and highways.
- 6.17 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?
- 6.18 The Council's expectations for the CFR in the next three years is shown below.

## Indicator 2 : Capital Financing Requirement (CFR)

	2021/22	2022/23	2023/24	2024/25
--	---------	---------	---------	---------

	31/03/22 Projected Outturn £M	31/03/23 Estimate £M	31/03/24 Estimate £M	31/03/25 Estimate £M
CFR	504.162	509.293*	500.645	492.319
Net movement in CFR		5.131	(8.648)	(8.326)

\* CFR estimate adjusted for the impact of IFRS 16, please refer to paragraph 6.21 for further details.

6.19 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.

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

### Indicator 3: External Debt

	2021/22 31/03/22 Projected Outturn £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M	2024/25 31/03/25 Estimate £M
Borrowing	324.807	357.842	351.423	349.004
Other long term liabilities	0.582	2.458	2.135	1.829
Total External Debt 31 <sup>st</sup> March	325.389	360.300	353.558	350.833
Net movement in External Debt		34.911	(6.742)	(2.725)

6.21 Other Long Term Liabilities includes an estimate of the Council's future lease liabilities. The accounting change for leases had been delayed until the financial year 2022/23. However, on 3<sup>rd</sup> February 2022, CIPFA issued an exceptional consultation on proposals for an update of the Code of Practice to delay the implementation of IFRS 16 (International Financial Reporting Standard for leases) for a further year to 1<sup>st</sup> April 2023. Given the outcome of the consultation will not be known until after the Capital Strategy is reported to Council on 9<sup>th</sup> March 2022, lease liabilities are included within the indicators in this report.

### Limits to Borrowing Activity

6.22 The first key control over the Council's borrowing 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

	2021/22 31/03/22 Projected Outturn £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M	2024/25 31/03/25 Estimate £M
Gross Borrowing	325.389	360.300	353.558	350.833
Capital Financing Requirement	504.162	509.293	500.645	492.319

6.23 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 reported to Council during the three-year period, including the incorporation of revisions if deemed necessary.

6.24 The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set, monitored and revised by Council. 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.

6.25 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

	2021/22 31/03/22	2022/23 31/03/23	2023/24 31/03/24	2024/25 31/03/25
--	---------------------	---------------------	---------------------	---------------------

	Projected Outturn £M	Estimate £M	Estimate £M	Estimate £M
Gross Borrowing Limit	324.807	525.000	525.000	525.000
Other long term liabilities	0.582	5.000	5.000	5.000
Authorised Limit	325.389	530.000	530.000	530.000

- 6.26 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**

	2020/22 31/03/22 Projected Outturn £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M	2024/25 31/03/25 Estimate £M
Gross Borrowing Limit	324.807	370.000	370.000	370.000
Other long term liabilities	0.582	3.000	3.000	3.000
Operational Boundary	325.389	373.000	373.000	373.000

#### Affordability Prudential Indicators

- 6.27 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.
- 6.28 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", with lease liabilities for IFRS 16 now included in this ratio from 2022/23 onwards. 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**

	2021/22 Comparator	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	4.94%	4.76%	4.65%	4.61%

- 6.29 The Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream is a new indicator introduced in the 2021 Prudential Code update. It identifies the net income from financial and commercial investments (other than treasury management investments) and is intended to show the financial exposure of the Council to the loss of income. Direct costs of the investment may be netted off.

**Indicator 8 : Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream**

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	0.28%	0.27%	0.27%

Governance

- 6.30 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.
- 6.31 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; 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. Capital receipts are used as part of the overall General Fund Capital Resources to fund the Capital Programme 2022/23 to 2024/25 as set out below. Capital receipts

are used to fund the Capital Programme across years and so the figures below will not align with those estimated to be received within each year as included in the CAMP.

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
General Fund Capital Resources	20.710	4.287	2.751

## **9.0 TREASURY MANAGEMENT**

- 9.1 CIPFA defines Treasury Management as “The management of the Local Authority’s borrowing, investments and cash flows, including 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 2022/23 (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 is to prioritise security and liquidity over yield and to focus on minimising risk rather than maximising returns.

- 9.7 The Council complies with paragraphs 51-53 of the Prudential Code, in respect of prudence in borrowing and investment, in that the Council will:
- Not borrow to invest primarily for financial return.
  - Not make any investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the Council and where any financial returns are either consequential to supporting the viability of the project in question or otherwise incidental to the primary purpose.
  - Comply with PWLB rules for lending.
  - Review options for exiting financial investments for commercial purposes in the annual treasury management or investment strategies (noting that Rhondda Cynon Taf Council originally acquired one asset for service delivery purposes (i.e. Ty Dysgu at Cefn Coed Business Park, Nantgarw); this has subsequently been re-classified as a commercial investment, following a change of use and will be kept under on-going review in line with the requirements of the Prudential Code).
- 9.8 The Welsh Government statutory guidance on Local Government Investments categorises investments as either Financial or Non-Financial. Financial investments can be further sub categorised into Specified, Loans and Non Specified. The updated Prudential and Treasury Management Codes categorise investments as Commercial Investments, Service Investments or Treasury Management Investments. Details of the Council's Investment Strategy is set out within its Treasury Management Strategy.
- 9.9 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 are 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.

#### Commercialisation

- 9.10 This section sets out the Council's high-level approach and appetite for commercial opportunities:
- Property acquisitions will be regeneration led and whilst there may be a commercial aspect, that is very much a by-product of our regeneration priority where, for example, public ownership will maximise the potential for property to be brought back into use, improve the viability and sustainability of our town centres and guard against properties being mothballed and a blight on our town centres and communities;
  - We will not acquire assets outside of Rhondda Cynon Taf, other than via the auspices of the Cardiff Capital Region Joint Committee and the South East Wales Corporate Joint Committee, where the asset is of regional significance;

- In line with our Treasury Management Strategy we will lend to other public sector organisations for the purpose of supporting and enabling them to contribute positively to our own corporate priorities and deliver projects from which the Council, our residents and communities will benefit. We will not lend money solely for income generation;
- We will continue to operate in the commercial market place where we have historically been a service provider, for example Trade Waste, Building Regulations, Waste Disposal and providing services to other public bodies, including local Registered Social Landlords. We will not develop our services to enter market places where there is sufficient supply and alternative providers other than where we can provide significant and demonstrable benefit to our residents, businesses and communities. We will continue to deploy our Community Asset Transfer arrangements as part of our work with communities and the voluntary sector to explore alternative delivery models to maintain services and facilities.

9.11 We summarise our approach further in the table below.

<b>Commercial Skills</b>	Our staff development activities and programmes will incorporate opportunities for our staff to develop and enhance their commercial awareness and exploit opportunities, including appropriate risk management;
<b>Efficient and Effective Organisation</b>	Already a pillar within our Corporate Plan, our robust self-assessment and service delivery planning arrangements will require all our services to consider commercial opportunities;
<b>Procurement</b>	We will ensure that our purchasing activities are focussed on achieving best value and will negotiate the best deals we can secure for the Council taking into account both cost and quality considerations. In doing so, we will also consider opportunities to ensure that local suppliers and service providers have the opportunity to compete for contracts we bring to the market and that we are socially responsible and contribute to reduce our carbon footprint;
<b>Use of Assets</b>	We will take advantage of our existing scale, breadth of activities and our asset base to identify opportunities where we can add value and generate income whilst not adversely destabilising existing markets and where the private sector can already provide excellence at good value;
<b>Charging</b>	We will continue to review and update our charging policy annually as part of setting our budget and seek to balance income generation alongside provision of our valued services at affordable prices and not seek to disincentivise our customers based on price;
<b>Trading</b>	We will continue to trade commercially through our wholly owned company, Amgen, seeking opportunities to extend trading operations and maximise income generation and profit;

<b>Investing</b>	We will invest in line with the prudential code principles where it is prudent, sustainable, affordable and proportionate; we will lend commercially where there are clear service and/or regeneration benefits which align with the Council's priorities;
------------------	--

- 9.12 Decision making on commercial activities will be in line with the Council's constitution, approved strategies and policies and will in all instances be with the express approval of the Council's Section 151 Officer and the Director of Legal Services.

### Governance

- 9.13 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.
- 9.14 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. A Mid-Year Treasury Management Stewardship Report and an Annual Treasury Management Review Report (following year-end) are reported to full Council and thereafter scrutinised by the Finance and Performance Scrutiny Committee. The role of scrutiny is a specific requirement of the laid down code of practice "CIPFA Treasury Management in the Public Services 2021" and also the Terms of Reference for the 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 £709M within the Council's balance sheet, under unusable reserves.
- 10.2 The Council has short term and long term provisions set aside amounting to £5.2M, the majority of which (£4.4M) is to cover Insurance claims.
- 10.3 The Council's latest audited Statement of Accounts for the 2020/21 financial year can be viewed by clicking [here](#).
- 10.4 The 2022 CIPFA Code of Practice on Local Authority Accounting introduced a change in the accounting rules for leases. The lessee will account for a lease by including in its balance sheet a right-of-use asset representing the economic benefits and service potential over which it has obtained control for the term of the lease, together with a liability for the payments it will make for the acquisition of those rights. This means that included within Other Long Term Liabilities will

be estimated figures for lease liabilities, with the right of use value for the underlying asset of the lease being included within the CFR. Previously only finance leases were accounted for on the balance sheet of lessees. However CIPFA are consulting on the timing of the introduction of these changes as detailed in paragraph 6.21.

## **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 training for elected Members and officers, interest rate analysis, investment advice and technical support.

## **13.0 EQUALITY AND DIVERSITY IMPLICATIONS AND SOCIO-ECONOMIC DUTY**

- 13.1 Due regard has been given to the Council's public sector equality duties under the Equality Act 2010, namely the Public Sector Equality Duty and Socio-Economic Duty, as part of compiling the recommended new three-year Capital Programme (2022/23 to 2024/25), which is also being considered alongside this report on the same agenda.
- 13.2 An Equality Impact Assessment has been completed in respect of the new three-year Capital Programme (2022/23 to 2024/25), that informs the Capital Strategy, and concluded that the recommendations set out in the report are in line with the above legislation.

## **14.0 WELSH LANGUAGE IMPLICATIONS**

- 14.1 There are no Welsh language implications as a result of the recommendations



in this report.

## **15.0 CONSULTATION**

- 15.1 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.

## **16.0 FINANCIAL IMPLICATION(S)**

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

## **17.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 17.1 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.

## **18.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

- 18.1 This report supports the delivery of the Council's Corporate Plan 2020-24 "Making a Difference" through 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.
- 18.2 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.

## **19.0 CONCLUSIONS**

- 19.1 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.
- 19.2 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.

**Other information:  
Relevant Scrutiny Committee – Finance and Performance Scrutiny  
Committee**

**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**COUNCIL 9<sup>th</sup> MARCH 2022**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**Item: 2022/23 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL INDICATORS**

**Background Papers**

- 9<sup>th</sup> March 2022 Council meeting – Report: The Council’s Capital Programme 2022/23 – 2024/25.
- 9<sup>th</sup> March 2022 Council meeting – Report: The Council’s 2022/23 Revenue Budget.

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

\*\*\*\*\*