Agenda

Newport City Council

Ddydiad: Dydd Mercher, 3 Mawrth 2021

Amser: 5.00 pm

Lleoliad: Canolfan Dinesig

At sylw: **Pob Aelod o'r Cyngor Dinas**

HYSBYSIAD GWE-DDARLLEDU

Gall y cyfarfod hwn gael ei ffilmio ar gyfer darllediad byw neu ddarllediad wedi hynny trwy wefan y Cyngor.

Ar ddechrau'r cyfarfod, bydd y Maer neu'r Person sy'n Llywyddu yn cadarnhau os yw cyfan neu ran o'r cyfarfod yn cael ei ffilmio. Efallai y bydd y delweddau a recordiad sain yn cael eu defnyddio hefyd at ddibenion hyfforddiant o fewn y Cyngor.

Yn gyffredinol, nid yw'r ardaloedd eistedd cyhoeddus yn cael eu ffilmio. Fodd bynnag, wrth fynd i mewn i'r ystafell gyfarfod a defnyddio'r ardal seddau cyhoeddus, rydych yn rhoi caniatâd i chi gael eich ffilmio a defnydd posibl o rhai delweddau a recordiadau sain ar gyfer gwe-ddarlledu a/neu ddibenion hyfforddiant.

Os oes gennych unrhyw ymholiadau ynghylch hyn, cysylltwch â Rheolwr Democratiaeth a Cyfathrebu

Eitem	**Wardiau dan Sylw**

1. Rhagofynion
   i. To receive any apologies for absence.
   ii. To receive any declarations of interest.
   iii. To receive any announcements by the Mayor.

2. Cofnodion *(Tudalennau 5 - 20)*
   To confirm and sign the minutes of the last meeting.

3. Penodiadau *(Tudalennau 21 - 24)*
   To consider any proposed appointments.

4. Materion yr Heddlu
   30 minutes is allocated for questions to the Gwent Police representative.

5. Rhybudd o Gynnig: Ffordd Liniaru'r M4
   This Council acknowledges the need for an M4 Relief Road around Newport and calls on the Welsh Government to issue a special directive ordering the implementation of an advisory referendum within the

Contact: Anne Jenkins
Tel: 01633 656656
E-mail: democratic.services@newport.gov.uk
Date of Issue: Dydd Mercher, 24 Chwefror 2021

Newport Local Authority boundary area.

6. Strategaeth Gyfalaf a Strategaeth Rheoli'r Trysorlys 2021/22 *(Tudalennau 25 - 86)* — All Wards

7. Revenue Budget and Medium Term Financial Plan (MTFP) Final Proposals *(Tudalennau 87 - 128)* — All Wards

8. Cwestiynau i Arweinydd y Cyngor
To provide an opportunity for Councillors to ask questions to the Leader of the Council in accordance with the Council's Standing Orders.

Process:
No more than 15 minutes will be allocated at the Council meeting for questions to the Leader of the Council.

The question must be addressed through the Mayor or the person presiding at the meeting and not directly to the person being questioned.

9. Cwestiynau i Aelodau'r Cabinet
To provide an opportunity to pose questions to Cabinet Members in line with Standing Orders.

Process:
No more than 10 minutes will be allocated at the Council meeting for questions to each Cabinet Member.

Members must submit their proposed questions in writing in advance in accordance with Standing Orders. If members are unable to ask their question orally within the allocated time, remaining questions will be answered in writing. The question and response will be appended to the minutes.

The question must be addressed through the Mayor or the person presiding at the meeting and not directly to the person being questioned.

Questions will be posed to Cabinet Members in the following order:

i. Deputy Leader and Cabinet Member for City Services
ii. Cabinet Member for Education and Skills
iii. Cabinet Member for Assets
iv. Cabinet Member for Sustainable Development
v. Cabinet Member for Community and Resources
vi. Cabinet Member for Streetscene
vii. Cabinet Member for Licensing and Regulation
viii. Cabinet Member for Culture and Leisure

10. Cwestiynau i Gadeiryddion Pwyllgorau
To provide an opportunity to pose questions to the Chairs of the Committees in line with Standing Orders.

Process:
No more than 10 minutes will be allocated at the Council meeting for questions to each Chair.

Members must submit their proposed questions in writing in advance in accordance with Standing Orders. If members are unable to ask their question orally within the allocated time, remaining questions will be answered in writing. The question and response will be appended to the minutes.

The question must be addressed through the Mayor or the person presiding at the meeting and not directly to the person being questioned.

Questions will be posed to Committee Chairs in the following order:

i. Scrutiny Committees
   a. Overview and Scrutiny Management Committee
   b. Performance Scrutiny Committee – People
   c. Performance Scrutiny Committee – Place and Corporate
   d. Performance Scrutiny Committee – Partnerships

ii. Planning Committee

iii. Licensing Committee

iv. Democratic Services Committee

For information:

A digest of recent decision schedules issued by Cabinet, Cabinet Members and Minutes of recent meetings of Committees has been circulated electronically to all Members of the Council.

11. Live Event

Click on the link below to view Live Event:

Join live event

Mae'r dudalen hon yn wag yn

Minutes

Council

Date: 26 January 2021

Time: 5.00 pm

Present: Councillors J Cleverly, P Cockeram, D Davies, M Al-Nuaimi, C Evans, M Evans, C Ferris, D Fouweather, J Guy, D Harvey, I Hayat, Councillor R Jeavons, M Kellaway, M Linton, D Mayer, R Mogford, Councillor J Mudd, M Rahman, J Richards, M Spencer, T Suller, H Thomas, K Thomas, C Townsend, Councillor R Truman, T Watkins, M Whitcutt, R White, K Whitehead, D Wilcox, D Williams, J Clarke, V Dudley, Y Forsey, R Hayat, T Holyoake, P Hourahine, J Hughes, J Jordan, L Lacey, S Marshall, W Routley, H Townsend and J Watkins

Apologies: Councillors M Cornelious, K Critchley, G Giles and G Berry

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1. **Minutes of the Previous Meeting**

Councillor Dudley's attendance was corrected to show that she was present.

<u>Item 12 Council Representation on the Board of Newport Transport</u>
The following sentence was removed:

After lengthy discussion by all parties on the matter, Cllr Mayer moved a closure motion in accordance with Standing Order 6.12.

And replaced with:

There was a discussion on the matter and, in the course of the debate, Councillor Mayer moved a closure motion in accordance with Standing Order 6.12.

Resolved: That the Minutes of 24 November 2020 were agreed subject to the above.

2. **Appointments**

<u>To consider the proposed appointments set out in the report</u>

Councillor Harvey moved the appointments set out in the Report, as agreed by the Business managers,

Resolved: That the following appointments be agreed.

Governing Body Appointments

Organisation	Nominations Received	Number of Vacancies/Replacements
Llanwern High School	Appointment	Mandy Shide
Glan Usk Primary School	Appointment	Lisa Hodge
Caerleon Comprehensive School	Appointment	Caroline McLachlan

Newport High School	Appointment	Janet Cleverly Paul Cockeram
Lliswerry High School	Appointment	Gaynor Edwards
Maindee Primary School	Appointment	Maddy Cameron
Alway Primary School	Re-appointment	Deborah Harvey
Caerleon Lodge Hill Primary School	Re-appointment	Kailey Pritchard-Parton
Fairoak Nursery	Re-appointment Appointment	Carmel Townsend Emma Garland
Lliswerry Primary School	Re-appointment	Maggie Bain
Malpas Park Primary School	Re-appointment	James Clarke Hazel Allen
St Michael's RC Primary School	Re-appointment	Michael Allen
Ysgol Gyfun Gwent Is Coed	Re-appointment	Ibrahim Hayat
Malpas Church Primary School	Re-appointment	Iain Riley
High Cross Primary School	Appointment	Caitlin Woodland

In addition to the above appointments, Councillor Harvey informed Council of the need to agree dispensation for Councillor absence, due to ill-health in accordance with section 85 of the Local Government Act 1972:

Resolved:
To approve six month's absence for Councillor M Cornelious.

3. **Police Issues (30 minutes)**

Superintendent Mike Richards was unable to join the Council Live Event. The Chief Executive of Newport City Council had been contacted by the Superintendent to advise that they had been attempting to join the meeting but had failed. The Chief Executive advised the Mayor that she had also tried to contact the Chief Superintendent to arrange a meeting with him to ensure attendance by the Police at February Council as it was important that members had the opportunity to raise matters of concern with the Police.

Councillor Al-Nuami referred to a report published on Wales Online recently regarding the Stop and Search numbers in Newport, which were quite high, particularly in the Stow Hill Ward. As a ward member, this was of some concern and Councillor Al-Nuaimi requested that it be raised at next Council. Councillor Harvey suggested that Councillor Al-Nuaimi email the Superintendent who will contact the Councillor regarding this issue. Any other members that so wished to contact the Police were also advised to do the same.

4. **Notice of Motion: Questions at Council to the Leader**

The Council considered the following motion, for which the necessary notice had been given. The motion was moved by Councillor Routley and seconded by Councillor M Evans.

That this Council Resolves:
To amend Council Standing Order 4.2 (b) to change the time limit for Questions at Council to the Leader from 15 minutes to 30 minutes.

Speaking to present the motion, Councillor Routley highlighted that the extension from 15 to 30 minutes would afford a greater opportunity for opposition leaders and other members to ask questions of the Leader in Council as there was currently insufficient time for all questions to be heard. . This was considered to be in the public interest and improve transparency and accountability.

The following amendment was moved by Councillor Marshall and seconded by Councillor Hughes.

This Council Believes:
The Local Government and Elections (Wales) Act 2021 will effect the way that we as a council operate.

This council further believes:

- The council is committed to improving democracy and believes that any changes must be scrutinised within the terms of reference of the Democratic Services Committee.
- That this is the opportune time to review the proposed standing order 4.2(b) within the context of the introduction of the Local Government and Elections (Wales) Act 2021 and existing procedures including the Newport City Council Remote Meeting Attendance protocol.

This council resolves that:
The Democratic Services Committee review both the impacts of the Local Government and Elections (Wales) Act 2021, and any proposed changes to the standing orders together in line with the work plan of the said committee within their normal reporting to full council.

Comments on the amendment from Councillors:

Councillor C Evans supported the amendment, reminding Council that it was the Newport Independents that requested Leaders Questions at Council in 2017 He felt that opposition Leaders did have the time to question the Leader and considered however that the time ask questions was also at Scrutiny. This forum would be an ideal opportunity for councillors, within the remit of the relevant Scrutiny Committees to ask more in depth questions as well as hearing from members of the public. Councillor Whitehead considered that both points were valid. However, he agreed that the amendment would provide a better forum to hear the voice of others and the general public. Councillor Whitehead considered that there was an opportunity for further in depth consideration at Democratic Services Committee with, it was hoped, a satisfactory outcome and therefore he supported the amendment.
Councillor J Watkins referred to the original motion and supported extending the time slot allocated to a further 15 minutes and agreed with Councillor Whitehead's previous comments. Councillor J Watkins referred to her time in Portsmouth as a Councillor where other members had a 30 minute time slot to put questions to the Leader. Councillor J Watkins therefore supported the original motion put forward by Councillor Routley.

For clarity, the Chief Executive asked whether the debate was for the amendment to the motion, rather than the original motion. The Monitoring Officer advised that the debate was on the amendment and if the amendment failed there would be a further debate on the substantive motion. Again, for clarity the Monitoring Officer reiterated that the debate was on Councillor Marshall's amendment that the matter be referred back to the Democratic Services Committee.

Councillor Williams supported both the increase the Leader's Questions time to 30 minutes as well as referring the matter to the Democratic Services Committee.

Councillor Mogford considered that the process was long overdue whether it was dealt with through the Democratic Services Committee and applauded Councillor Routley for raising the issue to ensure it went forward and would get to a point where more questions could be put to the Leader at Council, which would help the running order of questions. Both issues were however well meaning

Councillor Wilcox thanked Councillor C Evans for reminding council of the request made in 2017 for Leader's Questions, which were at the time, the first Council in Wales to do this.

Councillor Wilcox spoke in support of the amendment to the motion and referred to the LG Bill and its major reform. The changes would see an increase in public participation and more consistent and coherent collaboration. The Bill would also see more accountability and performance to provide a more accessible high quality service to the public and move councils forward and improve transparency. It was felt that it would be right to wait for the full merit of the Bill in operation and then refer to the Democratic Services Committee. To conclude Councillor Wilcox advised that there were plenty of opportunities to raise questions and accountability within the existing Council's processes and that members take advantage of these processes.

Cllr Fouweather saw the merit of the amendment and agreed that change was coming our way and it would therefore be sensible to have a proper debate within the Democratic Services Committee to make an informed decision. It was felt however that it in addition, it would be a gesture of good will if the time extension could be agreed immediately.

Councillor M Evans supported the additional 15 minutes to the Leader's Questions as well as the amendment and was disappointed that it could not be agreed because presently the leader's question time was just being used as an opportunity to raise issues of interest as well as any good news such as Heritage Lottery Funding for members of the public. It was therefore hoped that the extension would be accepted and that the council could move forward with the amendment.

Councillor Forsey considered that the 15 minutes allotted gave plenty of time for opposition Leaders and back benchers to ask questions and she had been successful in the past in putting questions to the Leader.

Councillor Hughes took the opportunity to remind members that a written response to questions put to the Leader was available if time had expired. A direct motion to council may not always afford the desired outcome. Previous improvements had been submitted in the form of fully researched and scrutinised reports from committees to members in full Council. The reason for this was to maximise the impact in order to fully understand the consequences of motions on the workings of the Council. Councillor Hughes therefore wished to support his colleague by seconding the amendment and refer the amendment through the appropriate committees; in this case, the Democratic Services Committees and report back to Council in due course.

Councillor Marshall proposed motion allowed amendment to be considered as part of a wider review of the wider impact and changes to the way that we operate as a council and agree that the proposal should be considered but also be reviewed as part of the wider review; the Local Government and Elections (Wales) Act 2021. It was felt that by not going through the proper channels it would undermine democracy and therefore to move the amendment through Council was more effective.

Councillor Routley thanked the Mayor for his right to reply and agreed with many of those that had spoken of the need for the extra 15 minutes, which it was felt would not hamper the proposed amendment and would be the democratic thing to do. Councillor Routley referred to earlier comments made by Councillor Wilcox in relation to changes within the new Bill and the processes already in place for members to ask questions. In summing up, Councillor Routley requested that the 15 minutes be considered at council in addition to the amendment, in the spirit of democracy.

As a point of Clarity, Cllr Whitehead asked if an extension of 15 minutes be agreed with immediate effect and amendment could be referred to the Democratic Services Committee.

The Monitoring Officer advised the Mayor that there were two distinct motions and an amendment. Therefore, unless Councillors Marshall or Routley were prepared to amend either the motion or the amendment to include both of what Councillor Whitehead had requested then, in effect, Councillor Whitehead is moving another amendment, which was a composite of the two. Councillor Routley agreed to the amalgamation of motion and amendment which would see the extension of 15 minutes to Leader's Questions and a referral to Democratic Services Committee for further debate. The Monitoring Officer reminded Councillor Routley that the discussion was regarding the amendment and it was therefore up to Councillor Marshall to agree the new proposal from Councillor Whitehead.

Councillor Marshall advised that he would not make any changes to his original amendment.

The Monitoring officer further clarified that what would be put to the vote was Councillor Marshall's amendment which was to refer the matter back to the Democratic Services Committee.

Councillor M Evans, advised that the conservative group would withdraw the original motion and support the amendment and suggested that his colleagues raise their concerns if they had any issues. With this in mind, the Monitoring Officer suggested that there was not a need for a roll call and that members could vote by exception.

Councillor Routley withdrew the motion and the amendment was put to the vote.

The Monitoring Officer asked for those wishing to, state their objections, therefore with no objections, council agreed Councillor Marshall's amendment, which was then passed as the substantive motion, following the withdrawal of Cuncillor Routley's written motion.

Resolved:
That Democratic Services Committee review both the impacts of the Local Government and Elections (Wales) Act 2021, and any proposed changes to the standing orders together in line with the work plan of the said committee within their normal reporting to full council.

5. **Report on Treasury Management for the Period 30 September 2020**

The Leader presented the report, which was to inform Council of the Treasury Management activities for the first half of the year to 30 September 2020. It was a backwards looking report and confirmed that the Council continued to follow its strategy of maintaining investments to a minimum, rather than taking out new long-term borrowing.

The report showed in the first half of the year there was a reduction in net borrowing from the end of March from £153.8 million to £121.1 million. The main reason for this decrease was the reimbursement of the extra borrowing the Council undertook at the end of March to front fund the business grants at the start of the pandemic which was subsequently reimbursed.

Welsh Government also front-loaded the revenue support grant in the first half of the year, meaning there was a positive cash flow. As Newport City Council moved into the second half of the year, it was anticipated that the level of investments would fall to the minimum level, with a need to undertake more borrowing towards the end of the financial year.

The report went to Audit Committee for their noting and comments, and their comments were included within the report for noting and consideration.

Overall, the report confirmed that the limits and indicators were met in line with the approved strategies. Council were therefore recommended to approve the report.

Resolved:
That Council noted and approved that the report on treasury management activities for 2020/21 were in line with the agreed Treasury Management Strategy 2020/21.
The Council also noted the comments from Audit Committee on the report.

6. **Council Tax Reduction Scheme**

The Leader presented the report, which referred to the Council Tax Reduction Scheme for 2021/22. The updated scheme that was introduced on 1st April 2015. The Council was not required to consult on the proposals of the new scheme as the changes made were in consequence of amendments made to the Prescribed Requirements Regulations. The local discretions that were available to the Council would remain unchanged.

The proposal set before Council was to approve the Council Tax Reduction Scheme for 2021/22 in accordance with the Council Tax Reduction Schemes (Prescribed Requirements and Default Schemes) (Wales) (Amendment) Regulations 2015 ("the Prescribed Requirements Regulations") exercising its local discretions as indicated within the report.

Resolved:
That Council approved the Council Tax Reduction Scheme for 2021/22 in accordance with the Council Tax Reduction Schemes (Prescribed Requirements and Default Schemes) (Wales) (Amendment) Regulations 2015 ("the Prescribed Requirements Regulations") exercising its local discretions as indicated within the report.

7. **Director of Social Services Annual Report**

The Leader was pleased to present the report which was delayed due to Covid, and was therefore a look back over the period of 2019/20.

This report was out of timescale with the Cabinet timetabling functions in 2019/20 due to Covid-19 measures imposed in March 2020 when it was due to be presented to Scrutiny Committee and Cabinet.

The Leader invited the Cabinet Member for Social Services, Councillor Paul Cockeram who also seconded the report, to say a few words on behalf of the services. The Leader also thanked the Cabinet Member for all of his hard work and commitment to the services.

The Cabinet Member for Social Services took the opportunity to say that Newport City Council had two excellent Heads of Services in Sally-Ann Jenkins and Chris Humphrey and thanked Chris for taking the role of Interim Director for People during this period of time. Councillor Cockeram made a couple of pertinent points within the report:

- There was an increase of 4038 Adult Assessments by 22% from the previous year.
- There was an increase of 5944 Children Assessments by 15% from the previous year.
- There was an increase of 188 Adult Assessments by 71% from the previous year.
- There was an increase of 3,000 Housing Support Referrals by 10%

There was a positive impact on Hospital discharge reflecting a the combined effort of Home First, as well as Reablement, as well as First Contact, Community Connectors and Residential Placement, which would be explained in more detail as Councillor Cockeram invited the Interim Director of Social Services to say a few words on the report.

The Interim Director of Social Services again highlighted that the annual report was delayed due to the pandemic and that safeguarding progress within the Council continued through the 'lock down' period and work that was planned was completed. For example the safeguarding champions were now embedded across the Council and currently met virtually.

The Scrutiny Committee received the full Annual Report on Corporate Safeguarding on 30 October 2020, with the caveat that progress was made in the intervening months.

Further progress was highlighted:

In Reach & Home First was continuing to support the development of integrated working practices by improving patient flow within the hospital. Home First prevented unnecessary admission (1167 safe discharges out of 2714 referrals between April 2019 and Feb 2020) through the offer of Information and Advice (IAA) and In Reach ensured planning for discharge was commenced at the earliest point.

Reablement was offered to everyone whether they had a care and support plan or not. This was an intake model and offered support to all older persons upon discharge in order to improve and maintain independence.

Frailty Reablement Specialist Dementia Service which commenced in 2020 and was operational from September. Full reporting was available during 2021/22.

First Contact provided information and advice to 4,588 citizens in 2019/20 – plans to develop further in with the integration of Falls, Physiotherapy and Reablement to the multi disciplinary team to further strengthen the availability of good quality advice and support at the front door.

Community Connectors offered an IAA service to 2,007 citizens in 2019/20 through telephone advice and one to one support. The team maintained the Dewis database, published newsletters, attended community events and supported local groups.

Carers 188 carers assessments were undertaken in 2019/20, an increase of 117 from the previous year. The Carers Network had 510 members and represented the work that had been done to extend the reach of the service through improved methods of communication. The recording processes was improved. Community Connectors provided advice and assistance to 422 carers during the year 135 more than in the previous 12 month period.

Intermediate Care Fund

Step Down beds: Parklands Five new bed spaces were funded by the Intermediate Care Fund (ICF) in 2019/20.

Transitional Planning A specialist Occupational Therapist was funded from the ICF in 2019/20 to improve the planning associated with a move into adulthood and the support required to achieve independent living.

The Head of Children and Young Peoples Services was invited to say a few words in relation to her section of the annual report:

Directors Report Highlights - Children

Increasing Residential Placement Opportunities Rose Cottage opened in 2019/20 and offered 4 children previously placed in out of county settings the opportunity to return to Newport. Two more Newport properties received capital funds from the Intermediate Care Fund (Rosedale and Windmill Cottage) and would deliver a further 8 beds in 2020/21.
Foster Carers Payment rates were increased to improve recruitment and retention of carers and six new foster placements were approved in 2019/20. The Council currently had 248 approved foster placements.

MyST (My Support Team) would be implemented in 2020/21 that offered a multi agency therapeutic approach for children with complex needs. This provided better support for Foster Carers and prevent placement breakdown.

Family & Friends Team was established in 2019/20 utilising Intermediate Care Funding (ICF). This service enabled kinship foster carers to become special guardians and reduced the number of children on care orders.

Supporting families to stay together The number of children supported to remain with their family as at 31 March was 58%, which was 7% below target but a 1% improvement on 2018/19. Additional services implemented in partnership with Barnardo's during 2019/20 that support this outcome were Baby & Me and Family Group Conferencing. **Baby & Me** worked with pregnant women at risk of having their baby taken into care. An independent evaluation of the service was underway to demonstrate the impact of the service.

Family Group Conferencing (FGC) encouraged families to find their own solutions. There was a 22% reduction in Looked After Numbers following an FGC intervention. There were 52 FGC's during 2019/20.

Adoption 20 children secured permanent and stable futures in 2019/20.

Young Carers 299 young people were supported by Barnardos in 2019/20 with ongoing support and leisure activities.

Joint Inspection of Child Protection Arrangements December 2019 Newport was the pilot city for the new inspection arrangements in Wales. The findings were positive and demonstrated positive and effective partnership working around abuse, neglect and child exploitation in Newport.

Councillor Fouweather could see the incredible amount of pressure that Social Services had been put under over the past year and commended the staff for managing those pressures. It was good that more people were willing to be foster parents. There was also concern that more pressure again around mental health would be increased and Councillor Fouweather asked if there was any measure put in place to address this in both Adult and Child Services.

Councillor M Evans and the conservative group welcomed the report and the honest appraisal during this difficult time and supported the report and recognised the stress that the services had be put under and thanked staff for their achievements during the time of national crisis. Welsh Government had recognised that performance indicators were not fit for purpose, as mentioned by the councillor last year. Councillor M Evans echoed Councillor Fouweather's concern regarding mental health as well as domestic abuse as a result of the Pandemic. There were some innovative projects taking place and it was hoped to see the development in the coming year.

Councillor Cockeram concluded by referring to the Youth Justice figures, where not one child had been put into custody, which was an important point.

Councillor Whitehead thanked Councillor Cockeram for his continued help in his role as Cabinet Member.

The Leader extended her thanks to both Heads of Service and the Cabinet Member and was very pleased with colleagues' responses.

Resolved:
That Council noted the Director of Social Services Annual Report for 2019/20.

8. **Revised Statement of the Licensing Policy**

The Cabinet Member for Licensing and Regulation, Councillor Truman introduced the report.

Under the provisions of the Licencing Act 2003 a local authority was required to publish its Licensing Act 2003 Policy every five years.

The revised policy before Council today went out to public consultation from 21 September to 30 October 2020, this included a consultation with all Responsible Authorities including Gwent Police.

The Policy was then presented to the Licensing Committee on 15 December 2020, where upon it was agreed by the committee to recommend that Full Council adopted the draft policy, but with some very minor amendments.

The minor amendments expanded on the importance for applicants to meet the public nuisance objectives; specifically regarding litter caused by Licenced Premises, and also to enhance engagement by applicants with local residents and communities when making an application.

The Licensing Committee considered the significant impact of Covid 19 on the licensed trade. The committee requested that the policy changes were monitored and that officers report to them after three to six months of the new policy being activated. This request was endorsed by the Cabinet Member.

In relation to the policy itself; it remained largely unchanged as served the council and the trade well over the years.

The main change however, was the removal of the Cumulative Impact Policy which affected Newport City Centre.

Previously, where a Licensing Authority implemented a Cumulative Impact Policy (CIP), there was a presumption that applications for new premises licences in that area would be refused.

The Policing and Crime Act 2018, then amended the Licensing Act, and changed the rules.

It stated that authorities should only have such restrictions following a Cumulative Impact Assessment. Currently, there was no evidence that the city centre had too many licensed premises and that such an assessment was required. Actually the reverse was true, and the council welcomed applications from responsible businesses. This would help the regeneration of the area and encourage a mix of visitors to the evening and night time economy and improve the variety of premises in the city.

The promotion and strict but sensible enforcement of the licensing objectives in Newport, and particularly the city centre, would seek to reduce disorder and nuisance. The city centre would be monitored closely as ever.

The Council's licensing authority were now seeking to adopt a special policy known as the 'City Centre Stress Area'. This allowed the authority to make decisions about appropriate opening hours and licensing conditions based on the local needs of the area.

This led the Council's licensing authority to propose a maximum "core hour policy" for the city centre, therefore, for new applications for pubs and bars, there would be a condition that all licensing activity must end no later than 2.30 am.

For new applications for nightclubs, there would be a condition that alcohol sales must end at 3.30 am and all licensed entertainment would end at 4.00 am. Further, patrons of the clubs would not be permitted entry or re-entry after 2.00 am.

It was felt that these changes would strike the right balance between;
- Encouraging businesses and improving the variety of the night-time offer; and
- The protection of customers and visitors and responsible management of premises.

Councillor Hughes seconded the report.

Comments from councillors:

Councillor Fouweather thanked the Cabinet Member for his presentation of a sensible report. Anything that helped bring back a vibrant night time economy was welcomed and there were also sensible proposals around closing time as well as sensible proposals for people re-entering premises after a certain time. This would hopefully reduce violence and crime within the city and resemble a thriving night time economy as it was in the 1980s when people had a good time and enjoyed themselves safely.

Councillor Al-Nuaimi welcomed the report on behalf of residents within the Stow Hill ward and it was hoped that a time when there was a vitality within Newport's night time economy, going forward and recovering from the pandemic. Councillor Al-Nuaimi considered that the proposed new times would have a positive impact on businesses and residents.

Councillor Routley also welcomed the sensible approach that was very well thought through rather than a knee jerk reaction, which would see a move to a more controlled night time economy. He echoed the previous councillors comments adding that it gave officers and applicants a clear understanding of the new licensing rules and therefore supported the very changes in legislation as set out in the report.

Councillor Forsey was pleased to note that some of the suggestions put forward by herself at the Licensing Committee review was incorporated within the report and the additional points referred to problems occurring on licensed premises such as litter and the impact on the community and measures would be taken to address this issue. Licensing was the responsibility of the local authority and therefore it was appropriate that different licensing times could be awarded, and not have to be the same across the UK.

Resolved:
That Council noted comments from Licensing Committee and approved the Revised Statement of Licensing Policy.

9. **Council Schedule of Meetings 2021/22**

The proposed schedule of meetings attempted to structure the diary with a series of meetings to facilitate the decision making process through the Council, Executive and Regulatory Committees. The schedule of meetings set a pattern of meetings for Scrutiny Committees and other bodies.

The diary did not include dates for meetings of individual Cabinet Members as Cabinet Members would take a view on when they needed to meet to make decisions, rather than be bound by a diary of meetings. This would of course, not affect members' opportunities for consultation on proposed decisions or to request to meet the Cabinet Member before decisions were taken.

It was suggested that the dates, times and locations of all meetings other than the Council meeting were to be left to each individual committee. It was suggested that the needs of Councillors who had work or other commitments at any time during the day were taken into account by the various committees and groups.

The schedule would remain a guide, was subject to change and amended to meet the needs of the work programmes of each committee or other group.

Resolved:
That Council adopted the schedule of meetings as the basis for arrangements for May 2021 to May 2021.

10. **Mayoral Nomination 2021/2022**

The Leader took great delight in moving the long serving dedicated ward member for Graig, Councillor David Williams should be Mayor of Newport during 2020/21.

This was seconded by Councillor M Evans.

Councillor D Williams was pleased to accept the nomination for this period and mentioned that he did not take up the post last year, and thanked Councillor Tom Suller for stepping in at the last minute and doing an outstanding job. Councillor Williams also thanked Councillor Cornelious who was not present, for initially inviting him to become a ward councillor for Craig.

Councillor D Williams declared a personal interest.

Resolved:
The Council unanimously resolved that Councillor D Williams be appointed to serve as the Mayor Newport for 2021/22.

11. **Questions to the Leader of the Council**

The Leader announced the following before proceeding with Questions.

- The Leader asked Council to take a moment to reflect on the lives lost and those fighting for their lives during Covid Pandemic. It was therefore important that we focus our minds on this serious issue and leave behind any unnecessary trivia.

- On this subject of this topic, the Leader was pleased to share with colleagues that Judith Paget, Chief Executive of Anuerin Bevan University Health Board, with herself, wrote to every household in Newport explaining the vaccination programme. This was repeated in all Councils across Wales, led by Public Health Wales and Health Boards.

- The Leader was also pleased to share with colleagues that the Lockdown was having the desired impact and there was a slow down in cases across the City, however it was important that residents continue to observe the lockdown restrictions.

- There were temporary testing facilities within Newport important that residents access these facilities, these were situated in Tredegar House Car Park, Rodney Parade, Pillgwenlly, Duffryn, Lliswerry and Rogerstone. The Leader stressed the importance of residents taking advantage of these facilities to get hold of the situation.

- The Leader was pleased to announce that the vaccines were well underway in Gwent with a central vaccine centre. Vaccinations were also going well in care homes as well as for front line staff.

- The Leader gave her personal thanks to Gwent Police and Chief Superintendent Harding and Superintendent Richards for their outstanding contribution in their support to Newport in support of enforcement and the regulations.

- Wednesday 27 January, would see the lighting the Civic Centre clock tower in purple to commemorate Holocaust Memorial Day and “shine a light in the darkness”.

  Colleagues we were not able to gather this year for the service at Newport Cathedral so this was our way of bearing witness to the many, many victims of genocide.

The Holocaust Memorial Trust was livestreaming a national service tomorrow evening and asking people to shine their own light in the darkness by putting a light in their windows at 8pm following the conclusion of the service.

The Leader hoped members and residents would participate in this because, as well as remembering those who lost their lives or had their lives changed forever in the past, the language of hate and intolerance that, sadly, persists today should be challenged.

- Comments and responses by colleagues on the Local Government and Elections (Wales) Bill Consultation had been submitted to Welsh Government. The Leader thanked colleagues for their contribution. The Leader also met earlier with the Minister for Local Government and went through the proposals and hopefully this was a step closer collaboratively in embedding this new legislation. On that note, the Leader reminded colleagues that there was no time limit on Scrutiny, there was a number of scrutiny committees in place where all members could challenge all aspects of the Council. There was also Questions at Any Time. The Leader also thanked the back benchers for putting their time and effort into the scrutiny committees, as well as Questions to the Leader.

- The Leader was delighted to announce that at the end of last week, the council successful secured £8.75 million from the National Lottery Heritage Fund to make our famous Newport Transporter Bridge into a major tourist attraction. This was the third biggest investment the NLHF has ever made in Wales and was a tribute to the hard work, determination and commitment of the council team behind the bid. The Leader thanked Councillor Harvey for all of her hard work and effort, including officers and Friends of Newport Transporter Bridge.

  This would will allow us to repair and preserve this important landmark and open a new visitor centre, which would be linked to the bridge by a walkway. The centre would bring the history of the bridge to life by show casing the personal stories of those who designed, built and used the bridge.

  There would also be more car parking spaces for visitors and an exciting activities programme including theatrical performances, art classes and mindfulness sessions.

  The restoration of the bridge would include work on the gondola, which would see the reinstatement of a number of its architectural features, as well as improvements to the approach road on the eastern side of the bridge. Refurbishment would also be carried out on the main boom, and a number of cables replaced.

  The development of a new visitor centre should create both job and volunteering opportunities and enhance the city's reputation as a visitor destination, both of which would bring wider economic benefits to Newport.

  The Leader was sure this wonderful and exciting news was welcomed by members, officers and residents as well as the bridge's many admirers across the world.

- Finally, work was completed on a new active travel path in Coed Melyn Park. The council carried out improvements after listening to feedback from people who use it. This was already a well-used walking route, the path was also identified as a potential off road cycling route from Risca Road through the open space down to Western Avenue. Funding was secured from Welsh Government to implement enhancements to create an active travel route which resulted in a wider, smoother path surface that benefits users of all abilities. The construction of the new path surface also incorporated special measures to protect roots of nearby trees. The low level lighting installed on the path has been designed to minimise effects on wildlife and the environment.

Leader's Questions

- Councillor M Evans mentioned that transport emissions were considerably higher in Newport than Welsh average and a recently published draft strategy issued by Welsh Government had admirable aims and objectives. Safe, attractive, well managed infrastructure was a key priority for the Council and we supported these aims and welcomed more people walking, cycling to work and using public transport or working more from home. Councillor Evans felt that there were lots of sticks but few carrots. The introduction of congestion charges and other workplace charging initiatives would have a devastating impact on economy and drive businesses away from Newport, when economic growth must be a top priority. As a Council, we always supported an M4 Relief Road, therefore Councillor Evans asked the Leader did she still support an M4 relief road.

  The Leader advised that in response to the draft strategy, Newport City Council developed a response and the Leader took the opportunity to thank Councillor Jeavons, Cabinet Member for City Services and Councillor Davies, Cabinet Member for Sustainable Development for their continued contribution within their respective portfolios.

  In response to the M4 relief road, the City Council had voted unanimously for this, however the decision was not supported by Welsh Government and a review was undertaken by the South East Wales Transport Commission. The Council therefore had a responsible approach to address the issues mentioned by Councillor Evans and move forward and take forward the review by the South East Wales Transport Commission. The Council had recently agreed to a Memorandum of Understand with Welsh Government to work on these recommendations to ensure best possible outcomes for the citizens of Newport.

  Supplementary Question:
  Councillor M Evans asked how would we do this and whilst there were new projects such as the Ebbw Vale rail link, however the projects along the outskirts of Newport corridor such as the World Conference Centre, were designed with the M4 relief road in mind. Would Newport therefore be competing with other towns and cities within the UK for business as a result of this. How could we encourage economic development without an M4 relief road.

  The Leader looked at this in the context of collaboration not competition. On the subject of collaboration the Leader met with other Leaders across the UK earlier at a discussion forum to talk about exactly that; how to support economic growth within Newport. This forum also included the deputy chair of Conservative political party who also recognised, along with other leaders, the importance that improved connectivity formed part of the investment within the region. Newport was one of the cities within the Western Gateway region and one the priorities was to improve connectivity within the region, as was the recommendations of the South East Wales Transport Commission report. We would all like to see improvement with connectivity and could achieve this at local level and national level and could achieve this by working in collaboration with Welsh Government. Finally on the matter of rail, it would be remiss of the Leader not to mention the lamentable level of investment in rail infrastructure in Wales by UK Government and therefore called on the Government to invest in rail and connectivity in Newport.

- Councillor Whitehead believed that as an Independent Group it was important to work together and find common ground, particularly in the current crisis. Would Council therefore join Councillor Whitehead in welcoming Uskmouth Rotary Club campaign, providing for laptops for children that needed them for home schooling. With that in mind, how many children within Newport did not have laptops or to access to remote learning and how was it being addressed.

The Leader had interviewed the young people working on the Rotary Club project. Overall, there was around 94% of pupils had access to connectivity with around 95% having access to devices for home learning. It was therefore important to focus our attending on the remaining of those pupils without access and there were measures in place to address this, such as schools loaning devices. A Myfi device provided by the Council gave 4G access to pupils to continue their home schooling. Some pupils who were vulnerable were invited into school to receive face to face learning. We also provided blended learning activities as well as making use of the Welsh Government's Ed Tech fund for over 3,000 devices and we received 400 and were expecting more in the near future as well as a further 1300 devices which were being rolled out to schools.

<u>Supplementary Question:</u>

Councillor Whitehead asked if the council could provide background for children using Teams, for those in particular who might be embarrassed about their home environment.

The Leader recognised this issued and advised that there was guidance on suitable backgrounds for children however the Leader would feedback to schools and would be happy to share images of Newport, should they wish to use them.

- Councillor C Townsend asked the Leader to provide an update on when the new Household Waste and Recycling Centre in Telford Street would open.

  The Leader advised that she did not have that information to hand but would provide a written response.

Questions Ballot

- Councillor Lacey asked the Leader if she provide an update to members on the preparation of Brexit.

  The Leader advised that there had been a constant changes with an agreement in place. As a city we had a long heritage of forging trade with the rest of the world and actually enabled people all over the world to work and live in our city. It was important to promote small business within Newport to thrive. There had been collaboration work with Welsh Government and partners on this particular issue with a thorough Risk Assessment. This work was also monitored through Gold Command, who regularly monitored the pandemic and Brexit, which was in the corporate risk register and monthly updates were provided to Cabinet. The Community Cohesion team worked very closely with food banks and the EUSS working group to support new citizens and asylum seekers and encourage EU settled status in Newport to live and work here. Working with Gwent Police and other multi agency groups to identify any issues of hate crime and discrimination.

12. **Questions to the Cabinet Members**

Councillor Ray Mogford put the following question to the Deputy Leader/Cabinet Member for City Services:

Could the Cabinet member give an update on the recent Flooding Emergency in Newport that took so many by surprise. In his overall response could the Cabinet member include a response to the specific questions below

- What lessons have been learnt?
- What actions are subsequently being taken to avoid repetition of such severe flooding
- What funding or reserves can NCC tap into to the improve the resilience to these types of emergencies going forward?

Response:
Like many other areas across Wales and the UK over the last few years, Newport did experience sudden and heavy rainfall and incidences of flooding at Christmas. Such major flooding events are subject to a section 19 investigation and those in relation to the recent incidences in Newport have commenced, and the findings will be made public in due course. Whilst led by Newport City Council, these also involve all other relevant bodies, including NRW and Welsh Water. In terms of infrastructure, the Council's 5 year capital funding programme is set out in the Highway Asset Management Plan, on which Members were consulted, but the majority of large scale flood defence work is carried out by NRW. It is, however, important to be aware that there will always be a limit to the capacity of drainage systems across the country and in instances such as those recently experienced, which are unfortunately likely to become more common due to climate change, it is likely that the sheer volumes of water will be the key issue.

Supplementary:

Cllr Mogford, asked who was in charge of the emergency over that period, for Newport City Council's Gold Command and could the Cabinet Member pass on thanks to staff involved on behalf of the ward councillors of Langstone.

Councillor Jeavons did not have to hand which senior officer covered Gold Command during this period but would email Councillor Mogford once he was in receipt of this information. Councillor Jeavons would also pass on the thanks to the staff involved.

13. **Date of Next Meeting**

Wednesday 3 March 2021 at 5pm.

Mae'r dudalen hon yn wag yn

Report

Council

Part 1

Date: 3 March 2021

Subject **Appointments**

Purpose To agree the appointment of Council nominees to committees and outside bodies.

Author Governance Team Leader

Ward General

Summary In accordance with its terms of reference within the Constitution, Council is responsible for appointing the members of Council Committees, and the Council's representatives on outside bodies. The current vacancies and nominations received are set out in the attached report.

Proposal **Council is asked to receive and approve the nominations for representatives, as listed in the report**

Action by Governance Team Leader

Timetable Immediate

This report was prepared after consultation with:

- Council Business Managers
- Head of Law and Regulation

Background

In accordance with its terms of reference within the Constitution, Council is responsible for appointing the members of Council Committees, and the Council's representatives on outside bodies. The current vacancies and nominations received are set out below.

Any vacant appointments / nominations received after the publication of this report, will be announced at the Council meeting by the appropriate Business Manager or Group Leader.

Internal Appointments

Committee / Appointment	No. of Vacancies / Replacements	Nominations Received
Planning Committee	1	Councillor Berry to be replaced by Councillor Spencer
Audit Committtee	1	Councillor Lacey to be replaced by Councillor R Hayat
Performance Scrutiny Committee - Place and Corporate	1	Councillor Critchley to be replaced by Councillor Linton
Standing Advisory Council on Religious Education (SACRE)	1	Councillor Wilcox
Active Travel Champion		Councillor Forsey

Governing Body Appointments

Governing Body	No. of Vacancies / Re-appointments	Nominations Received
Newport High School	1	Councillor Cockeram
Kimberley Nursery	1	Remove Councillor Cockeram
Malpas Court Primary School	1	William Langsford
Monnow Primary School	1	Emma Ashmead
St Andrews Primary School	1	Kevin Howells
The John Frost School	1	Becky Sims

External Appointments

Organisation	No. of Vacancies / Replacements	Nominations Received
Newport Transport Board	1	Councillor J Cleverly

Proposal
Council is asked to receive and approve the nominations for representatives, as listed in the report.

Comments of Chief Financial Officer
There are no financial implications directly arising from this report.

Comments of Monitoring Officer

The appointment of individuals to serve on outside bodies is a Local Choice function under the Local Authorities (Executive Arrangements) (Functions and Responsibilities) (Wales) Regulations 2007. The Council has determined that responsibility for this function shall rest with Full Council unless delegated by the Council.

Background Papers

Newport City Council Constitution
Local Authorities (Executive Arrangements) (Functions and Responsibilities) (Wales) Regulations 2007

Dated: 3 March 2021

Mae'r dudalen hon yn wag yn

Report

Council

Part 1

Date: 3 March 2021

Subject **2021/22 Capital Strategy and Treasury Management Strategy**

Purpose This report includes both the Capital Strategy and Treasury Management Strategy for approval by the Council. Both strategies are appended to this report. The report summarises and highlights the key areas relating to the strategies, alongside those areas of key implications/risks coming out of them. The revenue impacts of both strategies are included within the Medium Term Financial Projection (MTFP) which were approved separately by Cabinet as part of the 2020/21 budget report.

Author Head of Finance

Ward General

Summary The Council has ambitious plans for the city as set out in its Corporate Plan and the promises set out within it. A key enabler to deliver on this ambition is the capital programme. This report includes both the Capital and Treasury Management Strategies which, at their core (i) confirm the capital programme, as part of the Capital Strategy and (ii) the various borrowing limits and other indicators which govern the management of the Councils borrowing & investing activities, as part of the Treasury Management Strategy.

The 'Capital Strategy' also sets out the long-term context (10 years) in which capital decisions are made and demonstrates how/that the Local Authority takes capital and investment decisions in line with service objectives, gives consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

The capital plans of the Authority are inherently linked with the treasury management activities it undertakes, and therefore the 'Treasury Management Strategy' is included alongside the 'Capital Strategy'.

The main recommendations arising from the two strategies are summarised in this report below and are also appended.

Proposal Council is asked:

- To approve the Capital Strategy (Appendix 2), including the current capital programme within it (shown separately in Appendix 1) and the borrowing requirements/limits needed to deliver the current capital programme.
- To approve the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) for 2021/22. (Appendix 3)

As part of the above:

- To note the increased debt and corresponding revenue cost of this in delivering the current capital programme, and the implications of this over both the short and medium-long term in terms of affordability, prudence and sustainability.

- To note the Head of Finance recommendation to Council, that borrowing needs to be limited to that included in the current capital programme and the recommended prudential indicators on borrowing limits do this

- Beyond the current capital programme period, there are potential financial challenges around on-going affordability and sustainability but these will need to be reviewed closer to the start of the new programme within the context of funding levels and the Councils budget position.

- Note comments made by Audit Committee on 28 January 2021 (paragraph 5 & 6).

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Leader of Council Cabinet Member for Economic Growth and Investment
- Chief Executive
- Strategic Directors
- All Heads of Service
- Newport Norse
- The Council's Treasury Advisors
- Accountancy Staff

Signed

Background

CONTEXT

Governance and requirement of Councils

1. The Council Corporate Plan sets out how the Council will take forward its mission of 'Improving People's Lives' and includes a set of key promises. Delivery of these will, in some instances, involve capital funded projects.

2. Whilst Cabinet make decisions relating to what capital projects and spend to make, it is the full Council that approves the 'borrowing limits' that these are kept within. Many projects are funded from capital grants, capital receipts and specific reserves which do not impact on borrowing levels, but where borrowing is required, the programme is required to be set within those limits.

   This is an important area of overall financial management governance in that borrowing levels, once taken up, lock in the Council to a long term lability for revenue costs in relation to the provision of the repayment of those loans (MRP costs) and external loan interest costs – together known as 'capital financing costs',

3. The key governance documents that explain and control this area are

   Capital Strategy

   This, at its core:

   i) Sets out the long term context (10 years) in which capital decisions are made and includes the medium term capital programme;

   ii) Demonstrates that the Local Authority takes capital / investments decisions in line with service objectives, giving consideration to both risk/reward and impact;

   iii) Shows how the Council takes account of stewardship, value for money and affordability, sustainability and prudence in its decisions and plans

   Treasury Management Strategy

   This, at its core:

   (i) Sets out the Councils longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and in Newport specifically, its reducing 'internal borrowing' capacity

   (ii) Includes how it will manage and invest its surplus cash which also have various targets/limits as part of the suite of 'prudential indicators'

   (iii) Includes additional guidance - the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.

   Both these strategies are a requirement of CIPFA's Prudential Code which sets out the requirement for them and ensure, within the frameworks which these document set, that capital expenditure plans are:

- **Affordable -** capital spend and programmes are within sustainable limits. Councils are required to take into account current and forecast funding available to them and the totality of their capital plans and their costs in assessing affordability.

- **Prudent –** Councils need to set borrowing limits (called 'operational' and 'authorised limits' – part of the suite of Treasury 'prudential indicators') which reflect the Councils plan for affordable capital plans and their financing costs. On investing activities, Councils need to consider the balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield.

- **Sustainable –** Council's capital plans and the revenue cost of financing the current and future forecast borrowing/debt taken out for that needs to be sustainable in terms of the Councils overall finances and its impact on that**.**

4. The Capital Strategy and Treasury Management Strategy are inherently linked and the main recommendations and observations coming from these are summarised in the following sections. Full Council are required to approve these strategies and the limits and the prudential indicators within.

5. The report was taken to Audit Committee on 28 January 2021 for observations and comment. The following comments were received from the Committee and where relevant the response is reflected in the report:

   - Noted the significant increase in the capital programme over the period from 2020/21 due to the completion of the current capital programme.
   - Chair noted that while the report highlighted that the debts were unsustainable going forward and were high, the strategy does not answer the question "how high is high?"
   - Chair commented that it was difficult to tease out what the recommendations of the Head of Service are, and that it seemed the level of borrowing is basically driven by the capital programme. Chair recommended if the recommendation was that debt levels were getting too high, then the operational boundary could be amended or clarified in the paper.
   - Chair also said the paper could give further clarity to councillors on the operational debt levels and whether the capital programme was too ambitious for the Councils funds.

6. In response to the above comments:

   - The current capital programme is restricted by what is deemed as affordable and sustainable. This is because the increased budget provision put into the capital financing budget has meant that the high levels of borrowing are currently affordable whilst the risks to sustainability are no different to those that exist today and the percentage of the Councils overall budget allocated to this is broadly the same at the end of the programme compared to current levels today. The operational boundary limit in paragraph 11 limits the amount debt funded expenditure the Council can undertake and reflects the current capital programme for which the revenue budget exists.
   - There are potentially future affordability and sustainability issues beyond the levels here in the current programme but these cannot be confirmed or assessed until we are nearer to the new programme period and more certainty is known on funding levels and the Council's general budget position at that time. In saying this, affordability and sustainability issues will need to be carefully considered and should impact and drive the size of the next capital programme.
   - The Head of Finance summary in this report provides clarity on the affordability of the current programme and the sustainability on future borrowing levels, summarised above.

Capital Strategy 2020/21 to 2029/30

Capital Programme to 2024/25

7. The Council's capital programme goes to 2024/25 (this is the original capital 5 year programme to 2022/23 which has been extended by 2 years for projects whose completion spans beyond the 5 years). It is a significant capital programme and includes the provision of the new leisure facility, recently approved by Cabinet, plus funding its share of the accelerated investments being made by the Cardiff City Region, requires this to increase further and also therefore, the borrowing limits to facilitate these. A further £4.5m of further 'capacity' for borrowing to facilitate further schemes funded from borrowing between now and 2022/23 is also required for flexibility.

8. The capital programme includes £211.4m of already approved projects and alongside the investments above; the borrowing for cost of carry for Cardiff City Capital Region spend at £17.3m, £19.7m for the new leisure scheme and £4.5m for further uncommitted borrowing for future projects – brings a total investment of £252.9m for the programme ending 2024/25. The table below shows the prudential indicator for estimates on expenditure and financing, from which the borrowing limits will be set (Table 2).

Table 1: Prudential Indicator: Estimates of Capital Expenditure and Capital Financing in £ millions

	2018/19 Actual £m	**2019/20 Actual** £m	**2020/21 Forecast** £m	**2021/22 Budget** £m	**2022/23 Budget** £m	**2023/24 Budget** £m	**2024/25 Budget** £m	**Total 7-year programme £m**
TOTAL EXPENDITURE	29.5	31.4	32.7	62.7	71.6	17.9	5.6	**252.9**
Financed by:								
TOTAL COMMITTED (Appendix 1)	**29.5**	**31.4**	**32.7**	**60.7**	**70.6**	**17.9**	**5.6**	**248.4**
TOTAL UNCOMMITTED*			**1.5**	**2.0**	**1**			**4.5**
TOTAL FINANCING	**29.5**	**31.4**	**34.2**	**62.7**	**71.6**	**17.9**	**5.6**	**252.9**

9. The capital programme is financed through a variety of different funding streams; external grants, use of reserves and borrowing.

10. Capital Expenditure funded by debt increases the need to undertake external borrowing. A further driver for the need to undertake external borrowing is the capacity to be 'internally borrowed' reducing as earmarked reserves are utilised, which in turn needs to be replaced with external borrowing. This is the case particularly for this Council which has a high level of 'internal borrowing'; which is now reducing over the medium-long term. The Council is committed and has a requirement to be a net borrower for the long term. To ensure this borrowing is affordable and sustainable, Council is required to set an affordable borrowing limit.

11. **Affordable borrowing limit:** The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year.

    The 'Operational borrowing limits' over the medium term, have been set in line with the expected borrowing required to finance the current capital programme to 2024/25. If any increase to the operational boundary is required, including to borrow for investment/income generation schemes or regeneration investment (loans) this will need to be brought to Council for approval. The 'Authorised borrowing limits', provide a buffer for the ability to manage day to day cash requirements (ii) undertake a level of borrowing early where appropriate / affordable.

Table 2: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – borrowing	255	281	283	284
Authorised limit – PFI and leases	42	41	39	36
Authorised limit – total external debt	**297**	**322**	**322**	**320**
Operational boundary – borrowing	187	227	231	234
Operational boundary – PFI and leases	42	41	39	36
Operational boundary – total external debt	**229**	**268**	**270**	**270**

12. For the remaining three years of the current capital programme until 2024/25, the level of borrowing to facilitate the current capital programme is substantial with external borrowing increasing from an estimated £164m at the end of this financial year to £234m in 2024/25, an increase of over £70m. To summarise the position at the end of the current capital programme:

    - actual external borrowing is forecast to be c£234 (Operational boundary)
    - the total committed requirement for external borrowing is forecast to be c£284m (Authorised limit)

    The difference between both is the Council's 'internal borrowing' because of its cash backed reserves, which has been used in lieu of external borrowing. As reserves are spent over the medium term, in particular the PFI reserves, our reducing capacity for internal borrowing will need to be replaced with 'real', external borrowing. The Council will therefore, over the medium-long term, see this difference reduce and the external borrowing will increase to the committed requirement. This will have a revenue impact due to increasing interest costs of the 'real', external borrowing (2%-2.5% currently) compared to internal borrowing ('nil'/'minimal' cost currently).

13. The commitment to increase external borrowing leads to increasing capital financing costs as shown in table 3 below, and show a significant increase in capital financing costs from 2020/21. These costs are included in the Council's MTFP. Costs will continue to increase into the medium to long term. Compared to comparative authorities, the percentage of the capital financing costs as a proportion to the Councils total net revenue is high, particularly when compared to other Councils of similar demographics, showing the need to maintain a sustainable level of spending on capital expenditure funded by debt to manage these costs.

Table 3: Capital Financing Costs

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
Provision for repayment of debt (MRP)*	8.7	9.3	9.4	9.6
Net interest cost	7.0	7.3	7.3	7.5
Total capital financing (exc PFI)	**15.7**	**16.6**	**16.7**	**17.1**
PFI	5.5	5.6	5.6	5.7
Total Financing costs* (£m)	**21.2**	**22.2**	**22.3**	**22.8**
Proportion of net revenue stream	7.1%	7.0%	6.9%	6.9%

*includes charges direct to service areas

14. The Council has received a positive draft settlement from Welsh Government, and therefore to ensure it is funded at the point of approval and to support the Medium Term Financial Plan reducing the overall budget gap, Cabinet has, in its draft budget, ring-fenced the budget required to fund the full capital programme until 2024/25 in Appendix 1 in 2021/22.

15. At the end of the current capital programme the revenue budget required to finance the level of borrowing is forecast to be £22.8m, representing about 6.9% of the Council's predicted net budget at that point. The percentage of the capital financing budget/costs as a proportion to the Councils total net revenue is high when compared with other comparable Welsh Councils, though the allocation of available resources to different services/costs is a decision for individual Council's. The revenue cost of servicing the Council's external debts is a long-term cost and is increasing, at a time of uncertainty regarding future funding, though as a percentage of the net budget, is staying reasonably static given the increase in the Council's net budget, especially in 2021/22. There is currently no medium term UK budget and there is uncertainty of how funding might be affected by any plans to deal with the UK debt.

Beyond the current capital programme (2023/24 onwards)

16. Any debt funded capital expenditure means that the Council is locked into the commitment to borrow for the long-term. The Council must approve a capital strategy which ensures that the capital expenditure plans of the authority are affordable, prudent and sustainable. To help achieve this, the Council will need to set a sustainable limit for debt funded capital expenditure over the long-term and will need review as we approach 2024/25.

    Beyond the current programme, the context for that is its starting point, which are:

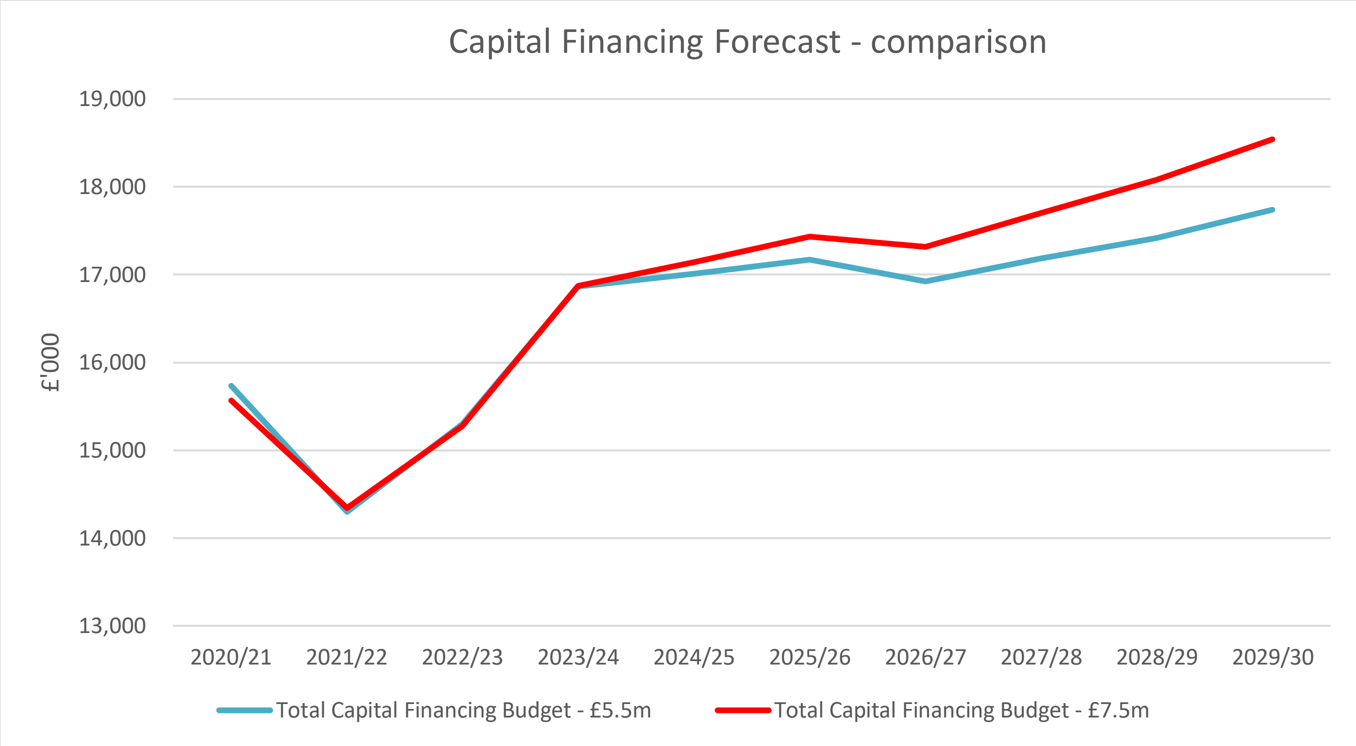
    - a higher level of forecast borrowing at the end of the current capital programme
    - a corresponding higher level of capital financing cost at the end of the current capital programme
    - continuation of the reduction in reserves and therefore capacity to be internally borrowed, requiring a continuing increase in external borrowing to replace it
    - the methodology for charging MRP at the Council, which realised a budget saving when changed 2-3 years ago but which increases the charge each year from that point and will continue to do so

    Ultimately, the issues above will also need to be seen in the context of (i) the Council's future funding; both external from WG core funding and local Council Tax which, for the former, will depend to some extent on the UK's response to the current debt and WG funding priority for the Local Government sector (ii) the Council's ability to produce robust/balanced budgets and (iii) progress on delivery (and spend) of the current capital programme.

    The current trajectory of debt funded capital spend and associated debt to finish the current capital programme will inevitably provide a challenging context.

17. Chart 1 below shows two modelled scenarios from 2023/24, (i) £5.5m debt funded expenditure per annum and (ii) £7.5m debt funded expenditure per annum.

Chart 1: Capital Financing Budget 2020/21 to 2029/30



18. The above shows the increasing capital financing costs over the next 10 years with a limit of both £5.5m and £7.5m of debt funded capital expenditure after the current programme. As is evident, based on the current programme the revenue capital financing costs of implementing a large capital programme is increasing year on year from 2021/22 to the end of the current programme in 2024/25 and alongside a revenue budget Medium Term Financial Projection showing a funding gap, provides the challenging context mentioned above.

19. Beyond the current programme:

- With limiting borrowing to £5.5m per annum, this reduces the Councils long-term committed need to borrow over the period, but actual borrowing reduces only very slightly. This is due to internal borrowing capacity reducing which in turn increases the need to borrow, dampening out most of the potential benefit of the reducing long-term committed need to borrow. This therefore reduces costs very slightly itself but is then offset by the increasing MRP charge methodology, increases the net capital financing costs

- With £7.5m borrowing per annum, the Council's actual borrowing does not reduce and stays broadly level, with no dampening of this from the reducing long-term committed need to borrow which is at a smaller level than above. The MRP charging methodology increases the capital financing costs as before

Whilst the costs of the current capital programme is now funded, these are the issues which will provide further medium-long term challenges to funding the Council's future capital programme thereafter and will, as said, need to be reviewed in light of forecast/known funding and the position on the Council's overall budget

Other Capital Strategy areas

20. The Capital Strategy includes a number of other areas to be considered by Council which are included in full in Appendix 2. One area that requires particular attention is the commercial activities section which has changed since last year.

21. Due to the economic impact of Covid-19 and the recent changes to the criteria in accessing the Public Works Loan Board for commercial investments, the Councils future commercial activities and in particular the £50m investment fund that was agreed as part of the capital strategy during 2019/20 has been paused. Council will be updated following a review on the future of these activities. The figures above in relation to capital expenditure and associated borrowing already incurred and included within the programme to 2024/25 do not include any borrowing forecast for the previously announced investment fund.

Treasury Management Strategy

22. Our detailed Treasury strategies for 2021/22 are included at Appendix 3. In addition, planned strategies to 2022/23 are also included, in line with the Council's remaining Medium Term Projections. Key points of interest are summarised below.

Borrowing Strategy

23. The capacity to be internally borrowed will reduce over the medium to long term. In 2021/22 the Council is expected to undertake external borrowing both for the refinancing of maturing loans and to fund increasing capital spend in the existing capital programme; it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it feels necessary to mitigate the risk of interest rate rises, undertake borrowing early to secure interest rates within agreed revenue budgets. This will be done in line with advice from our Treasury Advisors.

24. The Council is committed and has a requirement to be a 'net borrower' over a long-term as shown in paragraph 11-12. The Councils medium term financial projections (MTFP) include the revenue costs required to finance the borrowing limits in relation to finance the capital programme as mentioned above. Where this borrowing is undertaken for the investment/income generation schemes or investment purposes the revenue costs would be offset by the income received from the investment.

25. It is recommended given the long-term need to remain a 'net borrower', that future external borrowing will be taken over long time period taking into account the maturity profile of existing debts, in conjunction with advice from the Council's treasury advisers.

Investment Strategy

26. Both the CIPFA Code and the WG 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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

27. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into higher yielding asset classes during 2021/22, this has been delayed from 2020/21 due to the current economic climate as a result of the pandemic. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in strategy over the coming year.

28. The approved counterparty list and limits are shown table 4 of Appendix 3.

29. Treasury indicators and limits are outlined in the strategy, these set out the investment limits across various bodies/organisations, the maturity structure of borrowing and the amount invested over one

year (long-term). The limit placed on investments over one year is £10m, in line with the approved counterparty limits.

30. The Council will also be required to borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

Head of Finance Summary

31. The Councils capital strategy and in particular the capital programme itself are, from a financial perspective, decisions with long term implications and where decisions today ‘lock-in’ the impact on budgets once projects have progressed and borrowing taken out. Decisions taken today are also being made in a period of significant uncertainty on future funding, within a challenging time for public finances. As explained in the context section above, the core requirements for Councils are to makes decisions here taking into account:

(i) affordability – what are the increasing costs of debt that may be required, can it be funded/afforded in the overall revenue budget taking account of other spending pressures and forecast future income, including the impact of this spend vs spend in other areas?
(ii) sustainability – the impact of the debt and financing costs on the Councils budget long term and sustaining the impact of that
(iii) prudence – appropriate limits and targets are set to manage and monitor affordable and sustainable borrowing and investments are made with a view to balance security, liquidity and yield

In terms of the Councils current capital programme to 2024/25 and increases to it:

Affordability

- There is a significant increase in the Council’s level of external borrowing and its associated capital financing costs over the next three years. Due to the better settlement the Council was awarded for 2021/22, Cabinet were able to set the revenue budget required in order to fund the current capital programme to its conclusion in their draft budget. The current capital programme is now affordable, in totality, as a result of this.

  This is an important position to be in for the following reasons, taken together:

- The Council has an unbalanced MTFP over the next three years.
- The revenue capital financing cost increase is very significant over a short period of time
- Funding availability is uncertain, with a low funding base and uncertainty surrounding future funding from WG given the lack of a UK Comprehensive Spending Review and the increasing cost pressures on the budget from education/schools and social care

Sustainability

- The increased level of external borrowing and associated capital financing costs over the current capital programme period will produce some challenges and increased risks potentially in terms of sustainability and in agreeing to the borrowing limits, the Council needs to be aware of this. This is because of the increased budget requirement to fund the increasing debt, the relatively high amount of the Council’s revenue budget allocated to this already and over the medium-long term, costs will continue to increase as internal borrowing capacity reduces.

In saying this, it is forecasted that the proportion of the overall net budget that is spent on this cost will broadly remain the same by 2024/25 compared to now and is therefore no more potentially challenging than the current position. This is also based on currently prudent MTFP assumptions on WG funding, certainly based on funding increases over the last few years.

Therefore the risk here is the potential prospect of reduced public sector funding or funding not keeping up with budget demands and the 'locked-in' capital financing costs which are high and rising and therefore the risk to other service budgets. Council needs to be aware of this position but again, is not new or different to the current position or level.

Prudence

- Prudent operational limits on the level of capital expenditure funded by borrowing have been recommended which matches the current programme requirement carefully, including allowances for new schemes and regeneration schemes such as the new leisure centre but no more and therefore the Council's priorities, and in turn the capital programme need to be managed within those limits set. This ensures the programme and external borrowing are closely aligned and Council has oversight and limits the current significant increase. This is in line with the requirements of the CIPFA Prudential Code.

32. The starting point for the next capital programme beyond the current one with current forecast indebtedness and associated capital financing costs increasing is challenging and introduces some challenges as a starting point. Thereafter, reducing capacity for internal borrowing and an increasing MRP charge provides further funding challenges over the medium-long term. Key issues will therefore be the forecast/actual known funding position for the Council and the position on the Council's budget and demands on that.

It should also be remembered that most of the Council's funding for its capital spend comes from capital grants (c.60-65% on the current programme) and this is very likely to continue, especially in relation to key WG policy areas such as school buildings, for example.

33. Council are required to approve the Capital and Treasury Strategies including the prudential indicators and limits within these strategies.

Risks

Risk	Impact of risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Capital Expenditure increases need to borrow	H	M	Regular monitoring and reporting of available headroom should identify any issues at an early stage and keep Cabinet / Council updated	Members, Head of Finance
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds/duration available for relatively higher risk investment as measured	Members, Head of Finance, Treasury staff, based on advice from treasury advisors

			by 'credit ratings' will also alleviate the risk.	
Interest Rates moving adversely against expectations	Low	Low	Base and short-term Interest rates are expected to remain at current levels until. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

Links to Council Policies and Priorities

The Capital strategy sets out the Capital Programme over a long term context and demonstrates that the Capital Programme supports a number of the Council's aims and objectives.

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Assembly Government that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

To endorse both the Capital Strategy and the Treasury Management Strategy and the recommendations, and approve the capital programme 2018/19-2024/25.

Preferred Option and Why

To approve the updated 2018/19-2024/25 capital programme. The Prudential Code 2017 places a requirement on Local Authorities to determine a long term Capital Strategy. The Prudential Code and statute also requires that, before the end of the financial year, reports on Treasury Management matters are presented to Council for approval. Therefore, Council are required to approve both the Capital Strategy and the Treasury Management Strategy and approve the capital programme.

Comments of Chief Financial Officer

Both the Treasury Management and Capital Strategy highlight the revenue implications from capital expenditure, and for the need for the capital plans of the authority to be affordable, prudent and sustainable.

The Capital Strategy highlights the significant increase in borrowing and resultant revenue costs resulting from the current capital programme. Continuation of borrowing at this level into the next programme is unsustainable.

While the current capital programme is affordable and budgets have been identified in the 2021/22 budget for the delivery of the programme, it is important that expenditure is kept within the financing limits within the programme. If further borrowing is required this will need to be approved by Council.

Over the longer-term beyond the current capital programme, a slow-down of debt funded capital expenditure would be required, and even with the limited borrowing shown in the capital strategy the capital financing costs continue to increase, therefore showing the importance of agreeing a prudent limit for the future programme.

The treasury management strategy highlights that the borrowing strategy has changed on previous years due to the capacity for further internal borrowing being diminished. The Council now will need to undertake external borrowing, and will take a view on whether this can be done early to mitigate the risks of interest rate rises and remain within current set budgets.

Comments of Monitoring Officer

There are no specific legal issues arising from the report. The proposed Capital Strategy will provide a framework for future capital and investment decisions, having regard to principles of affordability, prudence, sustainability and risk/reward. The Treasury Management Strategy sets out the financial management principles that will underpin the capital strategy. As such, both strategies will form part of the Council's overall budget framework and they will need to be formally approved and adopted by full Council. Audit Committee have been asked to comment on the draft Capital Strategy and Treasury Management Strategy as part of its responsibility for reviewing and monitoring the effectiveness of the Council's system of internal controls and the proper administration of its financial affairs and their comments have been included in the Report. Audit Committee were only concerned with the effectiveness of the strategies in terms of how capital and investment decisions are made, and the detail of individual capital and investments decisions within the capital programme are executive decisions for Cabinet.

Comments of Head of People and Business Change

There are no human resources implications arising from the report. An effective capital strategy will enable the Council to support long term planning in line with the sustainable development principle of the Well-being of Future Generations Act.

Comments of Cabinet Member
N/A

Local issues
N/A

Scrutiny Committees
N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations (Wales) Act 2015 is taken into account when looking at the long-term impact of treasury management and capital decisions. The Council has a prudent Minimum Revenue Provision Policy and abides by the treasury management and prudential indicators detailed in the report.
An effective capital strategy will enable the Council to support long term planning in line with the sustainable development principle of the Act.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation

N/A

Background Papers

Report on Treasury Management for the period to 30 September 2020
Capital Monitoring and Additions Report

Dated:

Appendix 1 – Detailed Budget Breakdown of the current 7 year Programme

	Outturn 18/19	Outturn 19/20	Budget 20/21	Budget 21/22	Budget 22/23	Budget 23/24	Budget 24/25	Total
21st Century Schools - Band A	8,046	1,220	74	-	-	-	-	9,340
21st Century Schools - Band B	675	1,712	3,345	23,418	35,944	10,137	140	75,371
Jubilee Park - Fixtures, Furniture & Equipment	13	-	-	-	-	-	-	13
Gaer Annexe Education Use	-	416	79	-	-	-	-	495
Blaen-y-Pant Bungalow (Educational Use)	52	-	8	-	-	-	-	60
St Mary's Toilet Refurbishment.	-	42	-	-	-	-	-	42
Somerton Primary - ICT Equipment	11	-	-	-	-	-	-	11
Feminine hygiene hardware & toilet facilities.	34	-	-	-	-	-	-	34
Lliswerry High (S106 Funds)	110	80	-	-	-	-	-	190
Maesglas Reducing classroom size	-	64	200	257	-	-	-	521
Lliswerry IT Replacements	53	-	-	-	-	-	-	53
Welsh Medium Primary School	-	150	373	1,978	1,000	2,300	-	5,801
Reducing Classroom size bids	-	61	527	-	-	-	-	588
Bassaleg Demountables	-	116	90	-	-	-	-	206
ICT Equipment Lease (Clytha Primary)	-	20	-	-	-	-	-	20
ICT Equipment Lease (St Mary's)	-	11	-	-	-	-	-	11
St Patricks ICT	-	12	-	-	-	-	-	12
Bassaleg ICT	-	69	-	-	-	-	-	69
ICT Equip Lease Ysgol Gymraeg Ifor Hael	-	10	-	-	-	-	-	10
Ringland Perimeter Fence	-	-	85	-	-	-	-	85
Llanmartin Primary ICT	10	-	-	-	-	-	-	10
Malpas Park Primary	11	-	-	-	-	-	-	11
Education Maintenance Grant 2018/19	-	1,470	358	-	-	-	-	1,828
Education Maintenance Grant 2019/20	-	-	1,341	800	-	-	-	2,141
Education Asset Improvements - balance to be drawn down	1,055	200	27	-	-	-	-	1,282
Bassaleg Demountables - year 7	-	-	771	14	-	-	-	785
EdTech Grant	-	-	362	-	-	-	-	362
Education Accessibility Studies	-	-	268	-	-	-	-	268
Charles Williams Renovations	-	-	110	1,510	-	-	-	1,620
Lliswerry Safeguarding	-	-	57	-	-	-	-	57
Maindee Primary Toilets	-	-	172	-	-	-	-	172
Milton IT replacement	-	-	26	-	-	-	-	26

St Michael's It replacement	-	-	16	-	-	-	-	16
Prior Year Scheme - Various	(38)	(39)	-	-	-	-	-	(77)
Education	**10,032**	**5,614**	**8,289**	**27,977**	**36,944**	**12,437**	**140**	**101,433**
Gypsy/Traveller Site Development	2,993	78	10	55	-	-	-	3,136
Indoor Newport Market	-	-	1,000	3,500	-	(4,500)	-	-
HLF Market Arcade Townscape Heritage Scheme	39	266	1,556	980	-	-	-	2,841
Indoor Market Facilities Improvements	(2)	-	-	-	-	-	-	(2)
Civic Centre / Info Station Service Relocations	116	121	29	-	-	-	-	266
Info Station NSA enabling	536	-	-	-	-	-	-	536
123-129 Commercial Street (Pobl Regen)	623	623	-	-	-	-	-	1,246
Cardiff City Region Deal	1,208	-	412	2,594	5,188	-	-	9,402
Cardiff City Region Deal - Cost of Carry	-	-	-	-	1,850	9,987	5,482	17,319
Mill Street Development Loan	-	2,341	1,659	-	-	-	-	4,000
Neighbourhood Hubs	915	1,344	-	-	-	-	-	2,259
Arva Investment Loan	385	333	32	-	-	-	-	750
Disabled Facilities	898	1,092	1,100	1,000	1,000	-	-	5,090
Safety at Home	364	375	270	300	300	-	-	1,609
ENABLE Adaptations Grant	197	197	197	-	-	-	-	591
Homelessness Prevention Grant	98	-	-	-	-	-	-	98
Asset Management Programme	1,066	1,245	1,519	2,619	1,500	-	-	7,949
Flying Start Schemes	-	-	-	-	-	-	-	-
FS Maintenance 1819 / 1920	31	38	-	-	-	-	-	69
FS Shaftsbury Community Centre	183	-	-	-	-	-	-	183
Childcare - Flying Start	-	546	428	1,095	-	-	-	2,069
All Wales Play Opportunities	-	-	183	-	-	-	-	183
Castle Kids Refurbishment Works	-	-	18	-	-	-	-	18
Central Library - Structural Works	72	17	200	374	-	-	-	663
Transporter Bridge	72	913	265	10,287	1,400	-	-	12,937
Chartist Tower	-	1,344	256	-	-	-	-	1,600
PAC System	-	57	-	-	-	-	-	57
OLEV Residential EV charging Equipment	-	-	-	-	-	-	-	-
Medieval Ship	-	-	-	12	-	-	-	12
Information Station	-	-	140	1,610	-	-	-	1,750
Renewable Energy Investment	-	2	5	1,722	-	-	-	1,729
FS City Wide Maintenance & Repair of Premises	-	-	43	90	-	-	-	133

Improvements to Flying Start Facilities	-	-	118	-	-	-	-	118
TRI Thematic Funding	-	-	1,078	-	-	-	-	1,078
Prior Year Scheme - Various	(7)	(18)	-	-	-	-	-	(25)
Regeneration, Investment and Housing	**9,787**	**10,914**	**10,518**	**26,238**	**11,238**	**5,487**	**5,482**	**79,664**
IT Replacement Schemes	94	9	-	665	150	-	-	918
Corporate EDMS Rollout	-	13	-	-	-	-	-	13
CRM	250	276	243	-	-	-	-	769
I Trent Development	-	91	144	-	-	-	-	235
Print 2010- Managed Printer Service	131	-	249	-	-	-	-	380
People and Business Change	**475**	**389**	**636**	**665**	**150**	**-**	**-**	**2,315**
Telecare Service Equipment	97	12	36	30	30	-	-	205
Equipment for Disabled Grant (GWICES)	165	165	165	165	165	-	-	825
Home Care System	32	-	-	-	-	-	-	32
Centrica Lodge	(6)	(3)	-	-	-	-	-	(9)
SMAPF	320	305	297	-	-	-	-	922
Adults and Community Services	**608**	**479**	**498**	**195**	**195**	**-**	**-**	**1,975**
Disbursed accommodation and Covid-19 equipment	-	-	337	-	-	-	-	337
3 New Homes	701	792	629	-	-	-	-	2,122
Oaklands Respite Home	505	102	-	-	-	-	-	607
Windmill Feasibility Study	41	110	90	1,300	-	-	-	1,541
Children's and Families Services	**1,247**	**1,004**	**1,056**	**1,300**	**-**	**-**	**-**	**4,607**
Fleet Replacement Programme	797	1,912	2,428	1,153	1,850	-	-	8,140
Bus station - Friars Walk Development	29	93	-	-	-	-	-	122
Flood Risk Regulation Grant	24	34	33	-	-	-	-	91
Cemetery Infrastructure Improvements	16	30	64	-	-	-	-	110
Peterstone Sewage Scheme	1	28	194	-	-	-	-	223
Road Safety Capital 2018/19	-	1,379	-	-	-	-	-	1,379
Composting	567	-	-	-	-	-	-	567
Docksway Cell 4 Development	1,555	1,046	-	-	-	-	-	2,601

CCTV	-	37	8	-	-	-	-	45
Smaller Bins - MTRP BC	70	1,177	-	-	-	-	-	1,247
Newport Station Footbridge - LTF	77	314	1,024	2,645	-	-	-	4,060
Decriminalised Parking	232	874	280	-	-	-	-	1,386
Update Facilities in Parks	18	47	-	-	-	-	-	65
Decommissioning of Cemetery Office & Toilets	11	-	-	-	-	-	-	11
Building Improvements to Lodges	14	94	-	-	-	-	-	108
Small Scale Works Grant	34	-	-	-	-	-	-	34
Road Refurbishment Grant Scheme	931	198	711	-	-	-	-	1,840
Street Lighting LEDs	564	2,202	132	-	-	-	-	2,898
Park Square Lights	-	-	65	-	-	-	-	65
Velodrome Lights	-	173	166	-	-	-	-	339
Local Transport Fund - Active Travel Northern 2018/19	290	196	114	-	-	-	-	600
Tredegar Park Car Park	-	-	12	-	-	-	-	12
Tredegar Park - Pedal Power	-	3	152	35	35	-	-	225
Lliswerry Road (81)	-	9	2	-	-	-	-	11
28-30 Stow Hill (11/0269)	-	7	-	-	-	-	-	7
Forbisher Road (15/0720)	-	9	-	-	-	-	-	9
Festive lighting	-	109	-	-	-	-	-	109
Local Transport Fund - Active Travel Design 2018/19	240	-	-	-	-	-	-	240
Bus Stop Enhancements	-	24	376	-	-	-	-	400
Core AFT Allocation	-	340	-	-	-	-	-	340
Inner City Links	-	684	206	-	-	-	-	890
LTNF - ECO Stars	42	41	-	-	-	-	-	83
Safe Routes - St David’s RC Primary	84	145	60	-	-	-	-	289
Gwastad Mawr Flood Attenuation Improvement Works	2	-	53	-	-	-	-	55
18-19 Collection Collaborative Change Programme	1,175	-	-	-	-	-	-	1,175
LTF Monkey Island Bridge Lliswerry Pill	29	121	-	-	-	-	-	150
LTF Sustainable Transport	25	309	-	-	-	-	-	334
Riverside Park	20	-	-	-	-	-	-	20
Pye Corner Railway Station Development Works	21	-	-	-	-	-	-	21
Nappy Grant	-	202	-	-	-	-	-	202
Improving Flats Recycling Towards 70%	-	344	-	-	-	-	-	344
Increased Recycling at Docks Way	-	86	-	-	-	-	-	86
Plastic Waste Prevention Project	-	30	-	-	-	-	-	30
Green Infrastructure	-	-	234	-	-	-	-	234
Highways Annual Sums	455	322	501	500	500	-	-	2,278

Lliswerry Recreation Ground Changing Rooms	4	339	-	-	-	-	-	343
Safe Routes - St David’s RC Primary Year 2	-	-	278	-	-	-	-	278
Sustainable Transport Improvements Year 2	-	-	291	-	-	-	-	291
Upgrading and Replacement of Bus Stops	-	-	100	-	-	-	-	100
Road Safety Capital A48 Llandevaud	-	-	74	-	-	-	-	74
Resilient Roads	-	-	65	-	-	-	-	65
Western Corridor-Inner City Links	-	-	607	-	-	-	-	607
Monkey Island Bridge Year 2	-	-	990	-	-	-	-	990
Core Allocation Year 2	-	-	99	-	-	-	-	99
Flood and Coastal Erosion Risk Management	-	-	105	-	-	-	-	105
Carnegie Court Emergency River Works	-	-	1,100	-	-	-	-	1,100
Parry Drive Play Area Improvements	-	-	23	-	-	-	-	23
Brecon Road Play Area Improvements	-	-	3	-	-	-	-	3
Sorrell Drive Repairs and Glasllwch Kickwall Installation	-	-	26	-	-	-	-	26
Marshfield Community Centre	-	-	16	-	-	-	-	16
Improvements to Throwing Facilities at Newport Athletics Stadium	-	-	154	-	-	-	-	154
Local sustainable transport measures in response to Covid	-	-	600	-	-	-	-	600
Ultra Low Emission Grants	-	-	205	-	-	-	-	205
Flood recovery works - Tredegar Park	-	-	-	-	-	-	-	-
Kingsway car park operation	-	-	25	-	-	-	-	25
Increased Recycling	-	-	25	-	-	-	-	25
Repair & Reuse Activities in Town Centres	-	-	400	-	-	-	-	400
Repair & Reuse Newport Makerspace	-	-	58	-	-	-	-	58
New Leisure Scheme	-	-	-	-	19,721	-	-	19,721
Prior Year Scheme - Various	(11)	-	-	-	-	-	-	(11)
City Services	**7,316**	**12,959**	**12,059**	**4,333**	**22,106**	**-**	**-**	**39,051**
Total	**29,466**	**31,359**	**33,054**	**60,705**	**70,635**	**17,924**	**5,622**	**248,766**
<u>**Financed By:**</u>								
General Capital Grant	4,754	3,858	4,107	4,000	4,000	-	49	20,768
Supported Borrowing	4,058	4,077	4,097	4,058	3,219	1,701	-	21,210
Unsupported Borrowing	2,126	5,790	4,872	16,151	30,868	7,086	5,482	72,375
Prudential Borrowing	84	123	-	-	-	-	-	207
External Grants	12,911	13,055	15,838	33,107	25,014	9,137	91	109,154

S106	868	523	509	2,170	2,446	-	-	6,516
Other Contribution	242	268	65	397	-	-	-	972
Capital Receipts	3,136	820	2,325	448	1,588	-	-	8,317
Revenue Contribution	75	68	79	374	-	-	-	596
Reserve	1,081	2,777	913	-	3,500-	-	-	8,271
Finance Lease	131	-	249	-	-	-	-	380
Total	**29,466**	**31,359**	**33,054**	**60,705**	**70,635**	**17,924**	**5,622**	**248,766**

Appendix 2

NEWPORT CITY COUNCIL
CAPITAL STRATEGY
2020/21 TO 2030/31

CONTENTS

EXECUTIVE SUMMARY

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

It highlights that in the current climate of financial constraints and a Medium Term Financial Projection (MTFP) budget gap, that expenditure on capital needs to remain within affordable limits. Demand for capital resources remain high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners are required to meet this demand.

The strategy highlights the key risks and recommendations:

- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.

- The Council's current capital programme has a substantial amount of borrowing to 2024/25, and while this is affordable due to the revenue pressures being forward funded in the 2021/22 budget, it would be unsustainable to continue borrowing thereafter, at the current level.

- The Council's Medium Term Financial Plan includes the revenue costs for the financing of the current capital programme to 2024/25, which includes a potential leisure scheme which have not yet been approved and a level of uncommitted borrowing headroom limited at £4.5m. This will exclude any borrowing for any schemes which are self-financing over the life of the project.

- If the level of capital expenditure funded by borrowing is required to be increased from that detailed in the current programme it would need to be approved by Full Council.

- As per the agreed framework (detailed in the report) the current programme needs to be maintained within the agreed limits, therefore not putting additional pressure on the capital financing budgets that have been funded in 2021/22 budget.

- Within the context of significant demands for capital resources and limited availability, there is the need to develop our use of the various strategic plans across the organisation which drive the need for capital and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer and corporate visibility and assessment of demand for schools, highways and other operational assets.

- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years+). With the MRP budget increasing over the long-term, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

- The Head of Finance recommends Council agree a limit debt funded capital expenditure in the future programme. The impact of a limit of £5.5m and £7.5m per annum is included within this strategy.

- The prudential indicators, including borrowing limits, are in line with the MTFP approved by Cabinet.

The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy.

OVERVIEW OF THE STRATEGY

1.1. INTRODUCTION

The prudential code for Capital Finance in Local Authorities (2017) placed a requirement on local authorities to determine a Capital Strategy in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

The report sets out:

- The prudential code the need for a capital strategy and the governance arrangements for the capital strategy and programme (Paragraph 2)
- The current approved capital programme to 2024/25 (4 years) and its financing, and the revenue implications arising from demands on capital expenditure (Paragraph 3)
- The long-term (10 year) projection for the capital financing costs of the Council and where future demands arise from the various strategic plans across the authority for further capital resources. (Paragraph 4)
- Links between the Capital Strategy to Treasury Management strategy and treasury decision making. (Paragraph 5)
- A look at the commercial activity of the Council and its strategy going forward (Paragraph 6)
- Overview of other long-term liabilities the Council has, which members need to be aware of when looking at the capital strategy. (Paragraph 7)
- Summary of the skills and knowledge the Council has to carry out its duties for capital and treasury matters. (Paragraph 8)

2. PRUDENTIAL CODE & GOVERNANCE

2.1. PRUDENTIAL CODE – KEY OBJECTIVES

The objective of the Prudential Code is to ensure, within a clear framework, that the capital expenditure plans of local authorities are;

- **AFFORDABLE -** Total capital investment of the authority remains within sustainable limits. A local authority is required to consider the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts in assessing affordability.

- **PRUDENT –** The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the authority's plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices. Authorities should consider a balance between **security, liquidity and yield** which reflects their own risk appetite but which prioritises security and liquidity over yield.

- **SUSTAINABLE –** taking into account the arrangements for repayment of debt (including through Minimum Revenue Provision (MRP) and consideration of risk and the impact, and potential impact, on the authority's overall financial sustainability. This strategy will look at the sustainability over the period of 10 years.

and treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

2.2. GOVERNANCE FOR APPROVAL AND MONITORING OF CAPITAL EXPENDITURE

Member responsibility for assets rests with a cabinet member, currently the Leader of the Council cabinet member for Economic Growth and Investment. The main governance and approval process for capital expenditure is summarised as follows:

- Council approve the overall revenue and capital budgets following recommendations from the Cabinet. They also approve the borrowing limits of which the capital programme will need to remain within. This means that the borrowing limits will include and limited to the approved capital expenditure and the amount of uncommitted capital expenditure included within the current programme. The exception to this would be any schemes for which borrowing is required, but which finance themselves through the savings generated. These limits are a key performance indicator for treasury management. This ensures that capital expenditure is limited and borrowing remains within an affordable limit.
- This borrowing limit is based on what is included in the table 2 of the capital financing within this report. If the borrowing within the current capital programme requires to be increased this will need to be approved by Council.
- Council approve the Treasury Management and Investment strategies, which are intrinsically linked to capital expenditure and the capital strategy. Further details of these are provided in paragraphs 5.1 and 5.3.
- The detailed capital programme within the overall budget is approved by Cabinet following individual project appraisals by officers, containing the views of the Head of Finance.
- Items of capital nature, are discussed at the Capital Strategy Asset Management Group (CSAMG), which is made up of senior officers from all service areas and our property advisors, Newport Norse. Discussions include asset disposals, where capital expenditure is required and prioritisation of those areas and the overall asset management agenda.
- Decisions on Capital Expenditure will be made by the Senior Leadership Team (SLT) following review of the project appraisal.
- Cabinet approve capital expenditure to be added to the capital programme.
- Monitoring of Capital Expenditure is reported to Cabinet, and includes update on capital receipts and impact on the revenue budget of decisions made.

Affordability and sustainability is a key focus on the approval of expenditure, and therefore the agreed framework detailed in paragraph 3.1 is used. There is a process map for the approval of capital expenditure which is used, this is shown in Appendix 2a.

Decisions made on the approval of capital expenditure will be made with the liaison of the capital accountancy team and understanding of the long-term revenue implications of the expenditure is assessed before being added to the programme. Cabinet approve additions and deletions, as well as slippage, from the capital programme alongside the monitoring report.

3. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. It is the Councils policy not to treat any expenditure under £10,000 as capital, and therefore under this value will be charged as revenue in the year of expenditure.

3.1. CURRENT CAPITAL PROGRAMME

The current capital programme was recently extended to 7 years to reflect projects whose completion spanned beyond the original 5 year programme, taking the total programme from 2018/19 to 2024/25, this was approved at Cabinet in January 2020. Given the current financial constraints facing the authority, Cabinet and Council established a framework in order maximise capital expenditure but keep within a sustainable revenue budget to fund new borrowing, this was as follows:

a. Funding from sources other than borrowing needs to be maximised, by securing grant funding whenever possible and, maximising capital receipts

b. Regeneration schemes would be funded from ring-fencing the capital works reserve only and Joint Venture funds. Other kinds of support through the making of loans etc. would then be considered to support schemes, where it was needed and appropriate.

c. Any change and efficiency schemes or schemes which save money requiring capital expenditure would be funded by netting off the capital funding costs from the savings achieved

d. Schemes and projects which generate new sources of income would need to fund any capital expenditure associated with those schemes.

This framework ensures that the capital programme can be maximised but those schemes which cannot fund any resulting borrowing costs e.g. new schools programme, can be afforded and maximised within the headroom available. The limit is made up of identified uncommitted capital reserves and capital receipts, an estimated level of borrowing which is within the Minimum Revenue Provision (MRP) budget and a prudent estimate of future capital receipts

The latest capital programme is summarised in the table below. For 2021/22, the Cabinet have approved capital schemes of £60.7m, and the overall programme to 2024/25 including uncommitted borrowing is £252.9m (this includes £17.3m for the cost of carry of undertaking borrowing for Cardiff Capital Region 'City Deal' schemes prior to the funding from HM Treasury being received and regeneration projects):

	7-YEAR CAPITAL PROGRAMME							
	2018/19 Actual £m	**2019/20 Actual £m**	**2020/21 Forecast £m**	**2021/22 Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 Budget £m**	**Total 7-year programme £m**
Approved Schemes	29.5	31.4	32.7	60.7	49.1	7.9	0.1	**211.4**
City Deal - cost of carry					1.8	10.0	5.5	**17.3**
Regeneration Schemes					19.7			**19.7**
Uncommitted borrowing to invest in council assets / regeneration*			1.5	2	1			**4.5**
TOTAL EXPENDITURE	**29.5**	**31.4**	**34.2**	**62.7**	**71.6**	**17.9**	**5.6**	**252.9**

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

The current approved capital programme is substantial and leads to a considerable increase on the Capital Financing Requirement (CFR) over the medium term. Table 1 includes the current capital programme, any regeneration schemes approved in February by Cabinet and a level of uncommitted borrowing for potential additional capital schemes. A limit of £4.5m has been placed on any additional borrowing to fund capital expenditure within the current programme after 2020/21 to 2022/23.

Over the current capital programme there is a significant increase in borrowing to fund the projects within. Capital financing costs are increasing substantially with a £2.1m investment in the capital financing budget in 2021/22. It is important to note that this budget will not be fully required in 2021/22 and is a forward commitment, therefore a large proportion will be available in 2021/22 to fund other priorities.

Paragraph 3.2 illustrates the revenue impact of the capital programme. The framework agrees that the over the term of the current **capital programme would set at a level that does not put additional revenue pressure on the Medium Term Financial Projections (MTFP).** This is vitally important to maintain capital expenditure at a level that is affordable over the medium term. The limit of uncommitted borrowing that is available allows for additional capital expenditure without increasing the pressures on revenue.

The general fund capital grant in 2021/22 remains the same as awarded in 2020/21 which has been reflected within the above headroom figures, the future years grant is unconfirmed therefore for prudence it is not assumed that there will be any increase in subsequent years.

The programme has been compiled with regard for the latest demands on the capital programme which include:

- 21st Century Schools Programme – completion of Band A in 2018/19 and Band B from then on.
- Fleet Replacement Programme
- A number of HLF grant funded schemes including Transporter Bridge and Newport Market Arcade
- Cardiff Capital Region City Deal (CCRCD)
- Regeneration schemes which have not yet been formally approved.

There are a number of demands on the authority which will require significant capital expenditure which are not yet included on the programme, these will utilise the headroom available. It is important that capital expenditure is maintained at an affordable level within the framework agreed. Therefore, **prioritisation of capital expenditure is essential** and needs to be affordable and sustainable in the long-term to remain within the headroom available.

3.2. MEDIUM-TERM REVENUE IMPLICATIONS OF CAPITAL (CAPITAL FINANCING)

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). All debt has to be repaid and this includes both the actual debt principal plus interest costs on the debt. The planned financing of the expenditure shown in Table 2 is as follows:

Table 2: Capital financing in £ millions - Current 7-year programme

	7-YEAR CAPITAL PROGRAMME							
	2018/19 Actual £m	**2019/20 Actual £m**	**2020/21 Forecast £m**	**2021/22 Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 Budget £m**	**Total 7-year programme £m**
TOTAL EXPENDITURE	29.5	31.4	34.2	62.7	71.6	17.9	5.6	**252.9**
Financed by:								
Committed Grants and contributions	19.2	17.7	20.1	39.7	31.5	10.8	0.1	**139.1**
Committed Reserves, capital receipts, revenue	4.3	3.7	3.1	1.3	5.6	0.5		**18.5**
Committed new borrowing	6.0	10	9.5	19.7	31.7	(3.4)		**73.5**
Committed new borrowing for City Deal Cost of Carry					1.8	10.0	5.5	**17.3**
TOTAL COMMITTED (Appendix 1)	**29.5**	**31.4**	**32.7**	**60.7**	**70.6**	**17.9**	**5.6**	**248.4**
Uncommitted borrowing			1.5	2.0	1.0			**4.5**
TOTAL UNCOMMITTED*			**1.5**	**2.0**	**1.0**			**4.5**
TOTAL FINANCING	**29.5**	**31.4**	**33.1**	**62.7**	**71.6**	**18.4**	**5.6**	**252.9**

Due to the better settlement the Council will receive in 2021/22, Cabinet have front loaded the required medium term budget into 2021/22. This means that the current capital programme, any regeneration schemes not yet approved and a level of uncommitted borrowing limited to £4.5m has been funded within the MTFP. Any underspends available within the short term will be able to be used for voluntary revenue payments (VRP) or moved to reserves.

The forecast borrowing for 2020/21 to 2024/25 is £95.3m, if this is to be increased it would need approval by Council.

There is a substantial increase in the Capital Financing Requirement (CFR) as a result of the current programme, which is not sustainable if the level of borrowing continues into the next programme. The level of capital expenditure funded by borrowing must slow down after the current programme, therefore, for the next capital programme, a borrowing limit for capital expenditure funded by borrowing will need to be agreed.

Ultimately, the issues above will also need to be seen in the context of (i) the Council's future funding; both external from WG core funding and local Council Tax which, for the former, will depend to some extent on the UK's response to the current debt and WG funding priority for the Local Government sector (ii) the Council's ability to produce robust/balanced budgets and (iii) progress on delivery (and spend) of the current capital programme.

This strategy has modelled two scenarios, which limits the level of borrowing to either £5.5m or £7.5m per annum and shows the impact of this additional borrowing on the CFR. This is further discussed in the long-term view of capital expenditure section below.

When capital expenditure is financed by debt/borrowing, you are essentially locking the Council into a long-term revenue commitment. The Council is required to repay debt from our revenue budget over time; this is done through the Minimum Revenue Provision (MRP). Planned MRP payments (excluding PFI and leases) are as follows:

Table 3: Replacement of debt finance (MRP) in £ millions

	2018/19 actual	**2019/20 actual**	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
MRP budget	7.8	7.9	8.7	9.3	9.4	9.6	9.8

The table above shows the budgeted amount of MRP that is included within the MTFP, the amount is increasing on annual basis, and this will continue to do so over the longer term due to the MRP charge increasing. This shows an increasing pressure over the MTFP while there is still a funding gap, which emphasises the importance of maintaining capital expenditure within the headroom available in order not to put even more additional pressure on the revenue budget.

- The Council's full minimum revenue provision statement is available within the Treasury Strategy which will be approved alongside this capital strategy

Although capital expenditure is not charged directly to the revenue budget, as discussed above, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable - the net annual charge is known as 'financing costs'. The table below shows the financing costs as a percentage of the Council's net budget, which is one of the Councils Prudential Indicators.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Financing costs* (£m)	21.2	22.2	22.3	22.8
Proportion of net revenue stream	7.1%	7.0%	6.9%	6.9%

*includes capital financing costs of PFIs

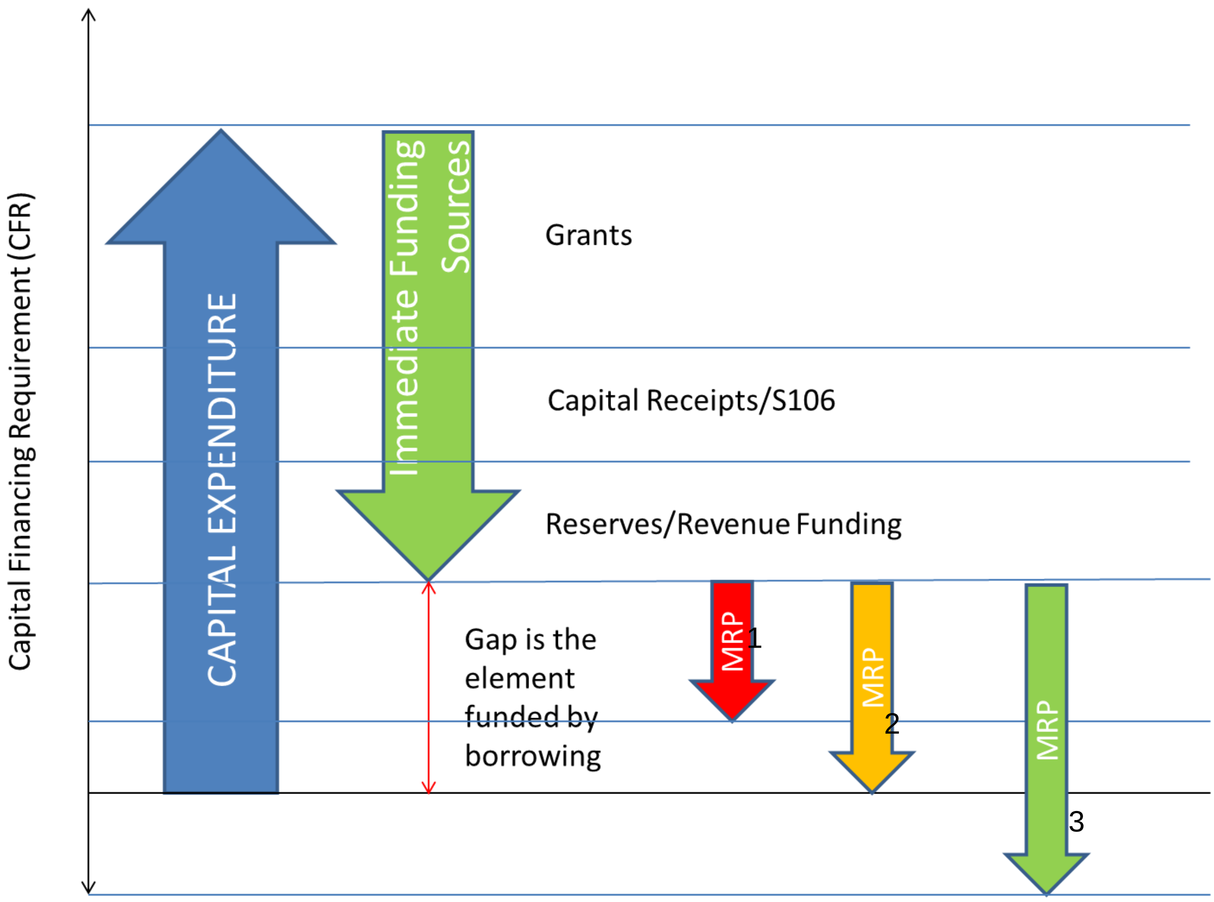
Capital costs continue to rise beyond the current programme even when limiting borrowing to £5.5m. This is because our ability to fund capital expenditure through internal borrowing is no longer applicable due to reserves being utilised, therefore this will need to be externally borrowed. External (or actual) borrowing will have interest rates payable on them which leads to increase in financing costs.

From the table above it is evident that the proportion of the budget set aside to finance capital expenditure is due to increase over the life of the current programme, again reiterating the pressure that capital expenditure, funded from debt, puts on the revenue budget.

- Further details on the revenue implications of capital expenditure are included in the 2021/22 revenue budget report.

Capital Financing Requirement (Our need to borrow)

The Council'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 diagram below shows the impact of capital expenditure, financing and the MRP on the CFR:



The diagram above shows the following:

1. CFR **increases** when capital expenditure is incurred.
2. CFR **decreases** when capital expenditure is immediately financed i.e. through grants, capital receipts, revenue funding, reserves, S106 income.
3. If the MRP charge is **less than** capital expenditure funded by borrowing (Red [1]) the net CFR increases

4. If the MRP charge is **equal to** the capital expenditure funded by borrowing (Amber [2]) then net CFR stays the same
5. If the MRP charge is **more than** the capital expenditure funded by borrowing (Green [3]) then net CFR decreases

This is an important concept, as it shows how decisions on the level of capital expenditure and the level of MRP budget has on our long-term borrowing and the capital financing implications of this.

The CFR is expected to increase by £1.5m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2019 actual	**31.3.2020 forecast**	**31.3.2021 budget**	**31.3.2022 budget**	**31.3.2023 budget**
TOTAL CFR	**278.8**	**280.2**	**281.7**	**295.3**	**319.8**

With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase, due to the change in the way that finance leases for lessees are treated. CIPFA LASAAC taken the decision to defer the implementation of IFRS 16 Leases until the 2022/23 in response to pressures on council finance teams as a result of the COVID-19 pandemic.

The greater the CFR the larger the impact will be on the revenue budget, therefore in the long-term there will be a need to keep capital expenditure funded by borrowing at a level below the MRP budget in order to maintain the revenue budget at a sustainable level.

- For full details of the Council's capital programme are included in the Capital Additions and Monitoring Report to Cabinet February 2021.

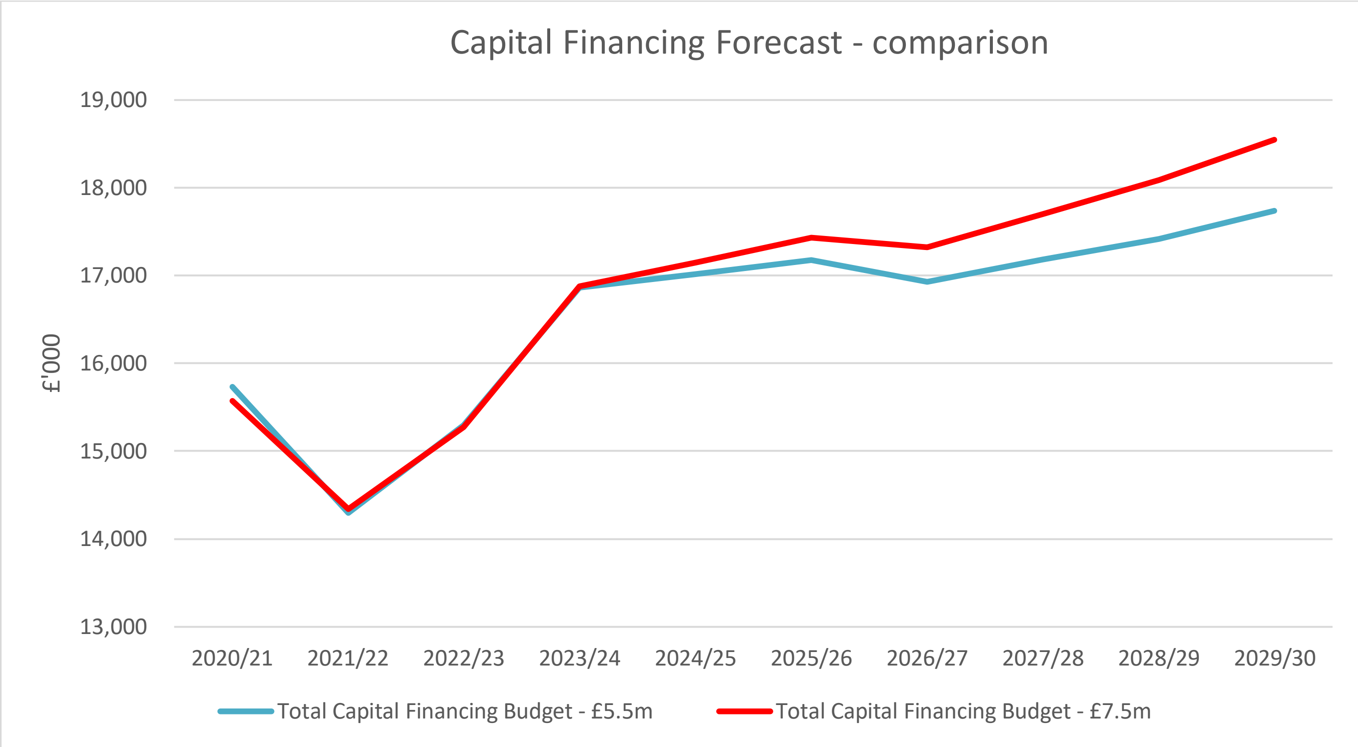
4. LONG-TERM VIEW OF CAPITAL EXPENDITURE

Expenditure on capital assets/projects are often for assets which have a long-term life i.e. buildings may have an asset life of 40 years+. The financing of these assets could also be over a long-term period. Therefore, as well as the Capital Programme highlighted in paragraph 3.1, it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once a decision has been made to fund capital expenditure from borrowing, the Council is locked into the revenue implications for that borrowing for a long-period.

Due to the financial constraints that the Council is currently facing, assumptions on future available finances are likely to remain tight and therefore over the long-term it is anticipated that revenue to fund capital financing will remain restricted. The capacity to use internal borrowing is also reducing which means that the authority will face a challenge in developing its next capital programme.

Chart 1 below shows the increasing capital financing costs over the next 10 years with a limit of £5.5m and £7.5m of capital expenditure after the current programme. As is evident, based on the current programme the revenue cost of implementing a challenging capital programme is increasing year on year from 2021/22, with only a very limited amount of uncommitted borrowing available. Alongside a revenue budget Medium Term Financial Projection showing a funding gap this provides a significant challenge within current context of funding constraints on Local Government.

Chart 1



The table illustrates the significant increase in financing costs as a result of the current capital programme, which, although it is funded due to the better than expected settlement, it shows that even by limiting the capital expenditure in the future to either £5.5m or £7.5m revenue costs will be substantial and will continue to rise.

With limiting borrowing to £5.5m per annum, this reduces the Councils long-term committed need to borrow over the period, but actual borrowing reduces only very slightly. This is due to internal borrowing capacity reducing which in turn increases the need to borrow, dampening out most of the potential benefit of the reducing long-term committed need to borrow. This therefore reduces costs very slightly itself but is then offset by the increasing MRP charge methodology, increases the net capital financing costs

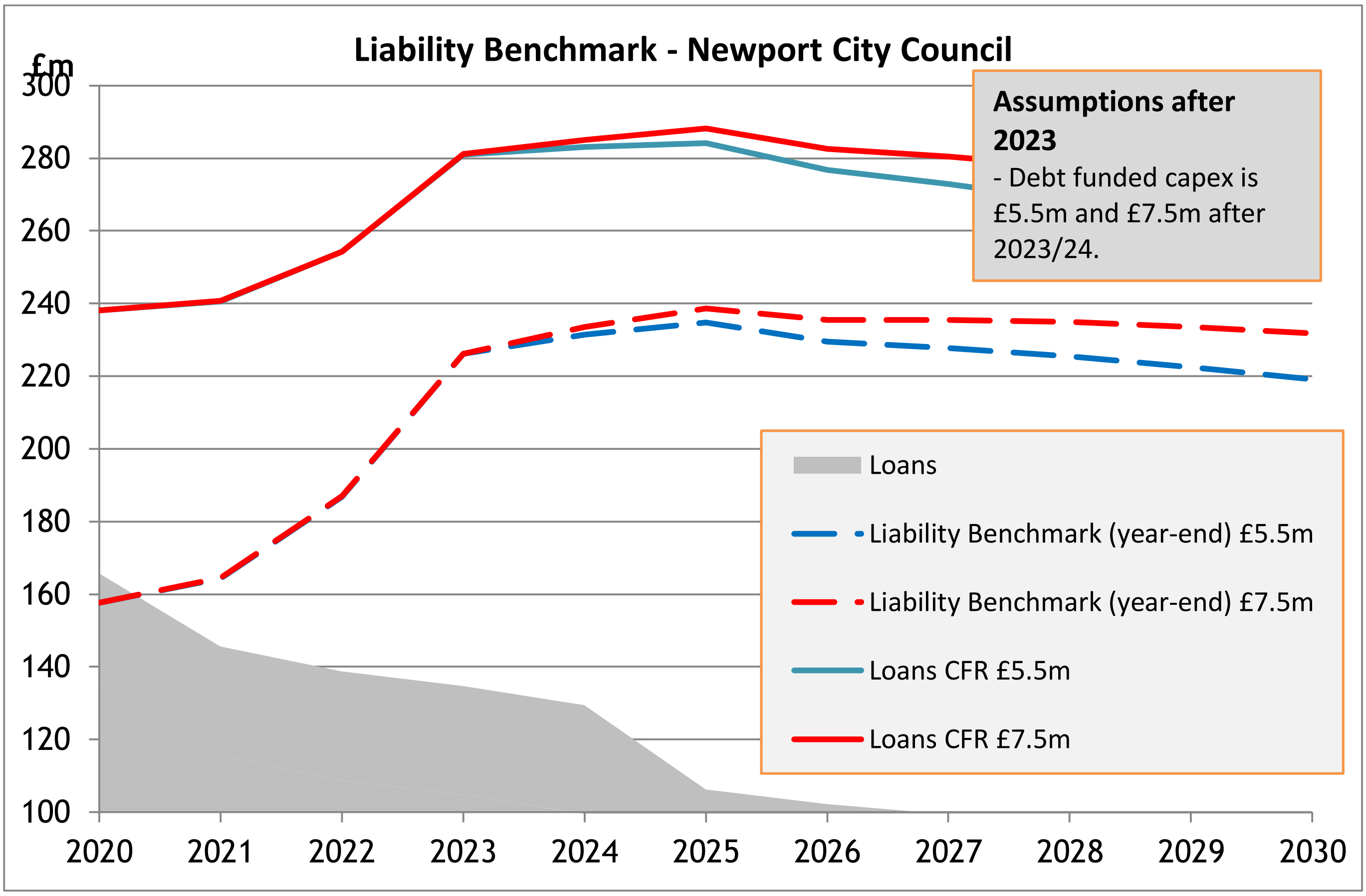
With £7.5m borrowing per annum, the Council's actual borrowing does not reduce and stays broadly level, with no dampening of this from the reducing committed need to borrow. The MRP charging methodology increases the capital financing costs as before.

The above will obviously be affected by a number of factors including amount of capital funding from Welsh Government, achievement of capital receipts and use and level of earmarked reserves.

- Earlier in paragraph 3.1 it highlighted the future demands on capital expenditure; the CFR is integral to understanding the affordability and sustainability of the capital programme. If the CFR is increasing over the long-term this puts pressure on the revenue budget to both repay that debt and also on the interest rates to fund the borrowing.

The chart below shows our overall need to borrow (Capital Financing Requirement) and need for external borrowing if the liability benchmark is set at £5.5m and £7.5m.

Chart 2



- The chart above illustrates the following:
  - In the current programme there is a significant increase in the need for external borrowing with the steepness of the curve over the next 4 years.
  - This is unsustainable if it continues at the same level as the current programme, so there must be a limit placed for future which is wither £5.5m or £7.5m per annum.
  - To remain affordable, capital expenditure funded by borrowing should be no higher than the MRP budget and ideally should be lower to limit the level of external borrowing that is required over time.
  - As earmarked reserves are utilised the amount we are internally borrowed (using our own cash to fund capital expenditure) reduces. We have reached the capacity of internal borrowing, and any further capital expenditure which is not financed at source (i.e. grants, capital receipts, reserves) will require external borrowing.
  - As current external borrowing matures, we will need to re-finance this debt rather than re-pay debt. This is due to the inherent need to borrow over the long-term.
  - The above puts additional pressure on the capital financing budgets through additional interest costs.
  - Therefore, it is vital that the CFR is at a level which is affordable and sustainable.

- A limit needs to be agreed to limit future borrowing to ensure that the liability benchmark is kept within a sustainable level
- A limit of £5.5m will reduce the level of borrowing after the current programme and £7.5m will keep the level of debt borrowing level, however in both scenarios as shown in Chart 1 previously the level of capital financing continues to increase over the long-term.
- Recent decisions to change the MRP methodology for charging to annuity method for unsupported borrowing and to a 40-year asset life for supported borrowing put future pressures on the revenue budget without any additional capital expenditure (While over the long-term borrowing is still repaid, the charge today is less and increases over future years). Therefore, we know that any additional expenditure funded by borrowing will put additional pressure on the revenue budgets in the future.
- Overall this shows a significant challenge for the next capital programme, onwards, and will mean prioritising all forms of capital expenditure in order to keep additional borrowing to a minimum is essential.
- Whilst the costs of the current capital programme is now funded, these are the issues which will provide further medium-long term challenges to funding the Council's future capital programme thereafter and will need to be reviewed in light of forecast/known funding and the position on the Council's overall budget.

➢ Capital Financing costs are discussed further in the Treasury Management section in paragraph 5.

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 into the future. The Head of Finance is satisfied that the capital programme is prudent, affordable and sustainable, although there is currently a funding gap in the Medium Term Financial Projections, the increasing capital financing costs and challenges are included within these and plans for closing this gap will need to be put in place by the authority and this is understood by Senior Managers and Members. The next capital programme will be challenging due to the increasing capital financing costs and demands. Therefore, there is the need for prioritisation for the next capital and this will prove a challenge for the Council.

In light of the above, the authority needs to understand the demands and risks associated with the deliverability of meeting these demands. The key drivers of the Council's capital plans are captured through various plans across the authority, these include:

The Authority will need to develop its understanding of the costs arising from each of the above strategic documents, and use these to prioritise restricted funding over the current and future programmes.

Capital investment in service assets is highly constrained by the funding available and therefore has not been funded at a level required to keep these assets in a steady state condition or to address backlog maintenance needs.

This is especially so in relation to highway assets and school buildings. The annual sum required to not only maintain assets at their current standard but to bring the assets to a standard level is significantly above the level that is available.

The plans highlighted above show the significant challenge facing the Authority in coming years and detail backlog maintenance challenges that face the Authority.

Annual sums included in the capital programme for highways maintenance, relevant specific capital grants and the 21st Century Schools programme will assist in addressing the highest priority backlog issues, focussing on worst condition first and risk. However, estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties (i.e. neighbourhood hubs, work on the library, Newport market development) will also be utilised to offset the backlog funding required. This will not address the total backlog, but is a way of targeting the main issues in an affordable manner.

Backlog maintenance has been estimated at the following values:

- Schools estate - £55m
- Other Council operational estate - £30m

5. TREASURY MANAGEMENT

The Treasury Management Strategy is taken alongside the Capital Strategy within the same report for approval at Council. The figures within link directly with the borrowings resulting from this Capital Strategy.

The Council will need to approve both the prudential indicators detailed below and limits of borrowing that this strategy recommends.

5.1. TREASURY MANAGEMENT

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 bank current account. The Council limits the need to take out actual borrowing by using positive cash-flow, largely from reserves, to fund capital expenditure funded by borrowing, known as internal borrowing.

Due to decisions taken in the past, the Council currently has £149m borrowing at a weighted average interest rate of 3.7% and £29m treasury investments at a weighted average rate of 0.17%.

5.2. BORROWING STRATEGY

Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can.

By using this strategy, the Council can also minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains the main reason for our current 'internally borrowed' strategy.

Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently around 1.5 to 2.5%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above). You will note the estimate projected debt is the same as the operational boundary as a limit for borrowing to carry out the programme as highlighted within this Capital Strategy.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**

Debt (incl. PFI & leases)	208	229	229	268	270
Capital Financing Requirement	280	287	297	322	322

With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase during 2021/22 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2021-22 treasury monitoring report to Council.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year.

The 'Operational borrowing limits' over the medium term, have been set in line with the expected borrowing required to finance the current capital programme to 2024/25. If any increase to the operational boundary is required, including to borrow for investment/income generation schemes or regeneration investment (loans) this will need to be brought to Council for approval. The 'Authorised borrowing limits', provide a buffer for the ability to manage day to day cash requirements (ii) undertake a level of borrowing early where appropriate / affordable.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	**2022/23 limit**	**2023/24 limit**	**2024/25 limit**
Authorised limit – borrowing	255	281	283	284
Authorised limit – PFI and leases	42	41	39	36
Authorised limit – total external debt	**297**	**322**	**322**	**320**
Operational boundary – borrowing	187	227	231	234
Operational boundary – PFI and leases	42	41	39	36
Operational boundary – total external debt	**229**	**268**	**270**	**270**

- Further details on borrowing are in the treasury management strategy

5.3. INVESTMENT STRATEGY

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2020 actual	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
Near-term investments	12.5	10	0	0	0
Longer-term investments	0	0	10	10	10
TOTAL	**12.5**	**10**	**10**	**10**	**10**

- Further details on treasury investments are in pages 6 to 10 of the treasury management strategy

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by Council. Half-year and end of year reports on treasury management activity are presented Council. The audit committee is responsible for scrutinising treasury management decisions.

Loans to other organisations

The Council can and does make investments to assist local public services, including making loans to businesses to promote economic growth. The Council will assess these opportunities and will only plan that such investments at least break even after all costs. Loans to such organisations will be approved following a due diligence process and formal governance arrangements.

The Council will also use other methods of assisting businesses to promote economic regeneration by providing grants or by allowing rent free periods where the Council is the freehold, such as the case at Chartist Tower.

Decisions on service investments are made by the relevant service manager in consultation with the Head of Finance and monitoring officer and must meet the criteria and limits laid down in the investment strategy.

<u>COMMERCIAL ACTIVITIES</u>

5.4. COMMERCIALISATION

Due to the ongoing pressures and risks and challenges as a result of the Covid-19 pandemic, the commercialisation strategy has been paused for the short-term.

6. OTHER LONG-TERM LIABILITIES

In addition to debt of £149m detailed above, the Council has a number of other long-term liabilities (potential call on future Council resources) as follows:

Private Finance Initiative (PFI)

The Council has two PFI arrangements for the provision of the Southern Distributor Road (23 years remaining) and for Glan Usk Primary School (14 years remaining). As at 31 March 2020 the value of the liability was £42.3m. The Council holds an earmarked reserve which covers the future costs of the PFI.

Pension Liability

The Council is committed to making future payments to cover its pension fund deficit (valued at £348.2m).

Provisions and Guarantees

The Council has set aside provisions and reserves for risks in relation to outstanding insurance claims and guaranteed subsidies in relation to Friars Walk. The Council has also entered into a number of financial guarantees where the Council has entered into agreements to act as a guarantor in particular safeguarding of former employee pension rights when their employment is transferred to third party organisations.

7. KNOWLEDGE AND SKILLS

IN-HOUSE EXPERTISE

The overall Capital Programme and Treasury Management Strategy are overviewed by the Head of Finance and Assistant Head of Finance, who are both professionally qualified accountants with extensive Local Government finance experience between them. There is a Capital Accounting team consisting of qualified and part-qualified accountants who follow Continuous Professional Development Plan (CPD) / attend courses on an ongoing basis to keep abreast of new developments and skills. There is a small Treasury Management team who manage the day-to-day cash-flow activities and banking arrangements of the authority, these again attend the necessary courses and training and have a vast amount of experience.

EXTERNAL EXPERTISE

All the Council's commercial projects have project teams from all the professional disciplines from across the Council and when required external professional advice is taken from the property advisors, Newport Norse, or other professional advice if required.

MEMBERS

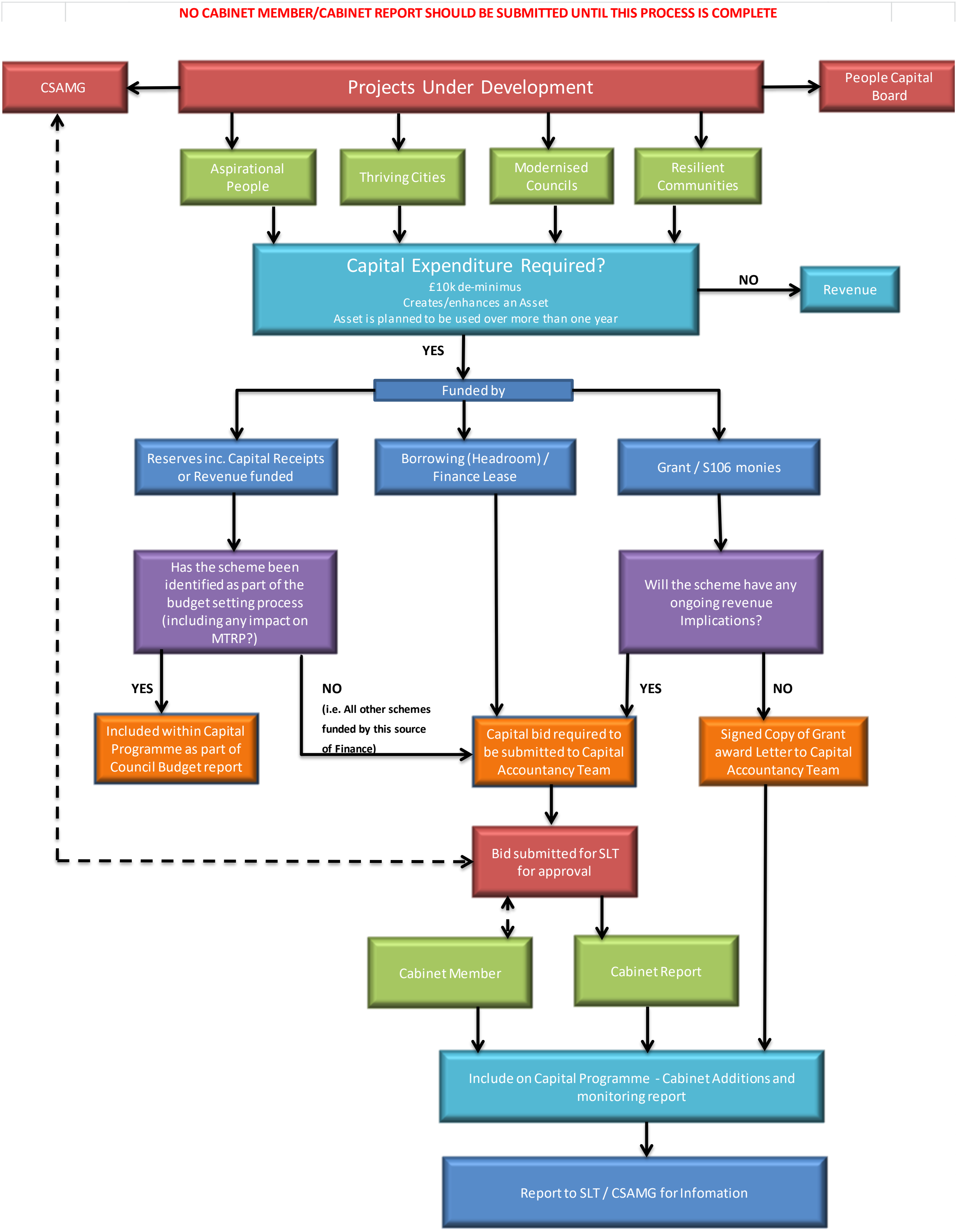
Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. A register is also kept on member attendance. The Council also involves members at a very early stage of a projects life cycle.

8. SUMMARY

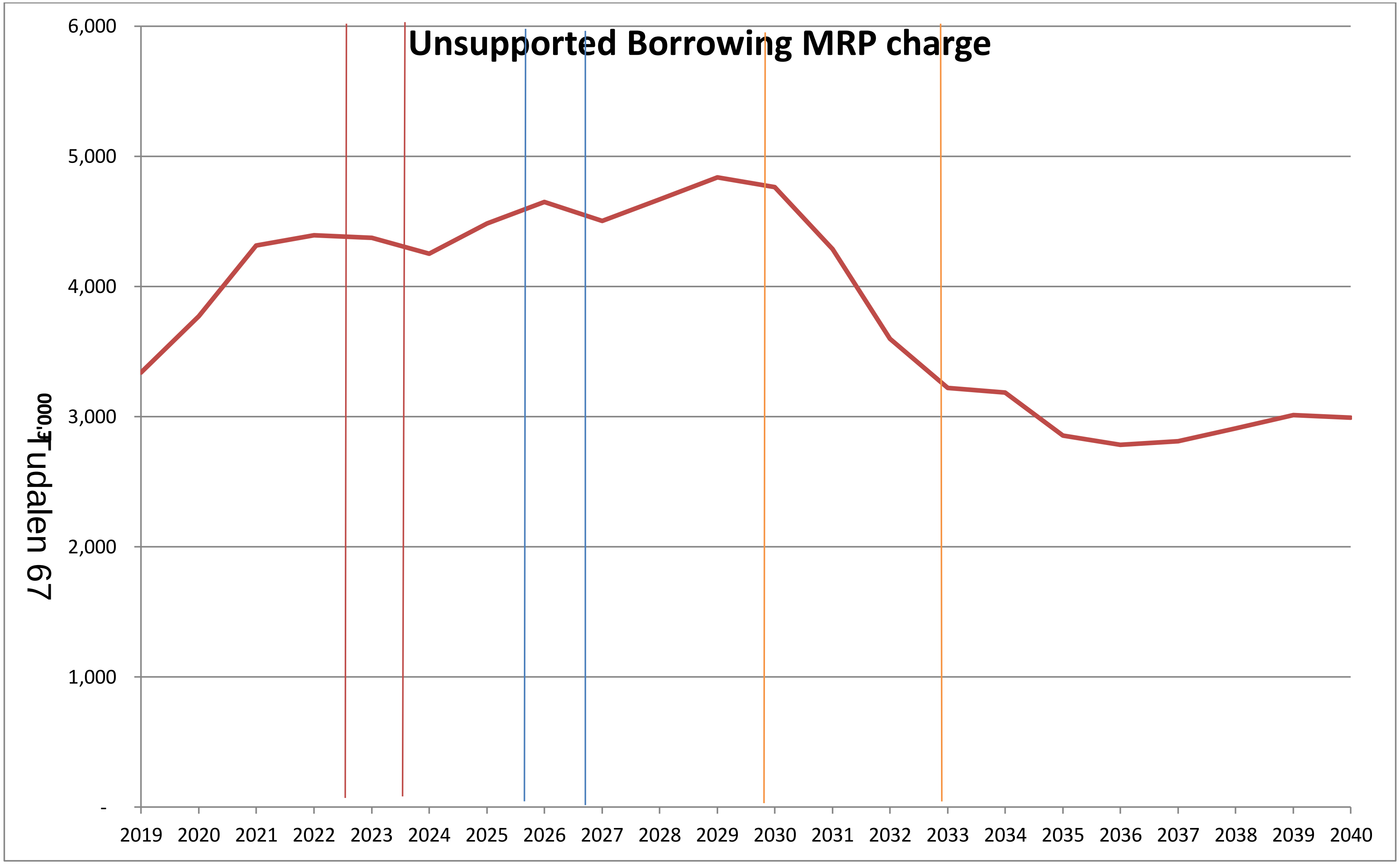
- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.
- The MTFP includes the current revenue costs for the capital programme, which includes level of headroom for additional capital projects to be added without impacting further on the revenue budget.
- As per the agreed framework the current programme needs to be maintained within the affordability headroom, therefore not putting additional pressure on the MRP budget.
- There are a number of demands on the capital programme, there is the need to link the capital strategy with a number of strategic plans across the organisation to ensure the pressures on the capital programme are known and the risks are assessed and prioritised within an affordable framework. This will include clear visibility and assessment of demand for schools, highways and other operational assets.

- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years +). With the MRP budget increasing over the long-term as shown in chart 1, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

APPENDIX 2a – Capital Additions Process Map



Appendix 2b



Unsupported Borrowing MRP charge
£'000
6,000
5,000
4,000
3,000
2,000
1,000
-
2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040

Appendix 3

Treasury Management Strategy Statement 2021/22

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

External Context

Economic background: The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3a.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 3%, and that new long-term loans will be borrowed at an average rate of 2%.

Local Context
On 31st December 2020, the Authority held £149.2m of borrowing and £28.8m of treasury investments. This is set out in further detail at ***Appendix 3b***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
General Fund CFR	280.2	281.7	295.3	319.8	318.9
Less: Other debt liabilities *	(42.3)	(41.3)	(40.7)	(38.4)	(36.1)
Loans CFR	**237.9**	**240.4**	**254.6**	**281.4**	**282.8**
Less: External borrowing **	(165.6)	(145.6)	(138.7)	(134.8)	(129.5)
Less: Usable reserves	(87.1)	(82.8)	(74.0)	(61.5)	(58.1)
Less: Working capital	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Preferred Investment position		10.0	10.0	10.0	10.0
Treasury Investments or (New borrowing)	**18.2**	**(18.6)**	**(48.5)**	**(91.7)**	**(101.8)**

* leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing.

With the pending introduction of IFRS 16 Leases, the CFR is likely to increase during 2021/22 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2021-22 treasury monitoring report to Council.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has a significantly increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £101.8m over the forecast period, this is broken down into £36.1m refinancing of maturing existing borrowing and £65.7m additional (£165.6m to £231.3m) external borrowing, while internal borrowing and investments are forecast to reduce by £29.0m and £8.2m respectively as shown in table 2 below.

Table 2: Year on year change in internal and external borrowing

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
Loans CFR (as per table 1)	**237.9**	**240.4**	**254.6**	**281.4**	**282.8**
- Cumulative Internal Borrowing	90.5	86.2	77.4	64.9	61.5
- Investments	(18.2)	(10.0)	(10.0)	(10.0)	(10.0)
- Cumulative External Borrowing	165.6	164.2	187.2	226.5	231.3
Increase in External Borrowing		**(1.4)**	**23.0**	**39.3**	**4.8**
Represented by:					

Change in loan CFR (Cap Exp funded by debt less MRP)		2.5	14.2	26.8	1.4
Reduction in reserves		4.3	8.8	12.5	3.4
Reduction in investments		(8.2)	0	0	0
Increase in External Borrowing		**(1.4)**	**23.0**	**39.3**	**4.8**

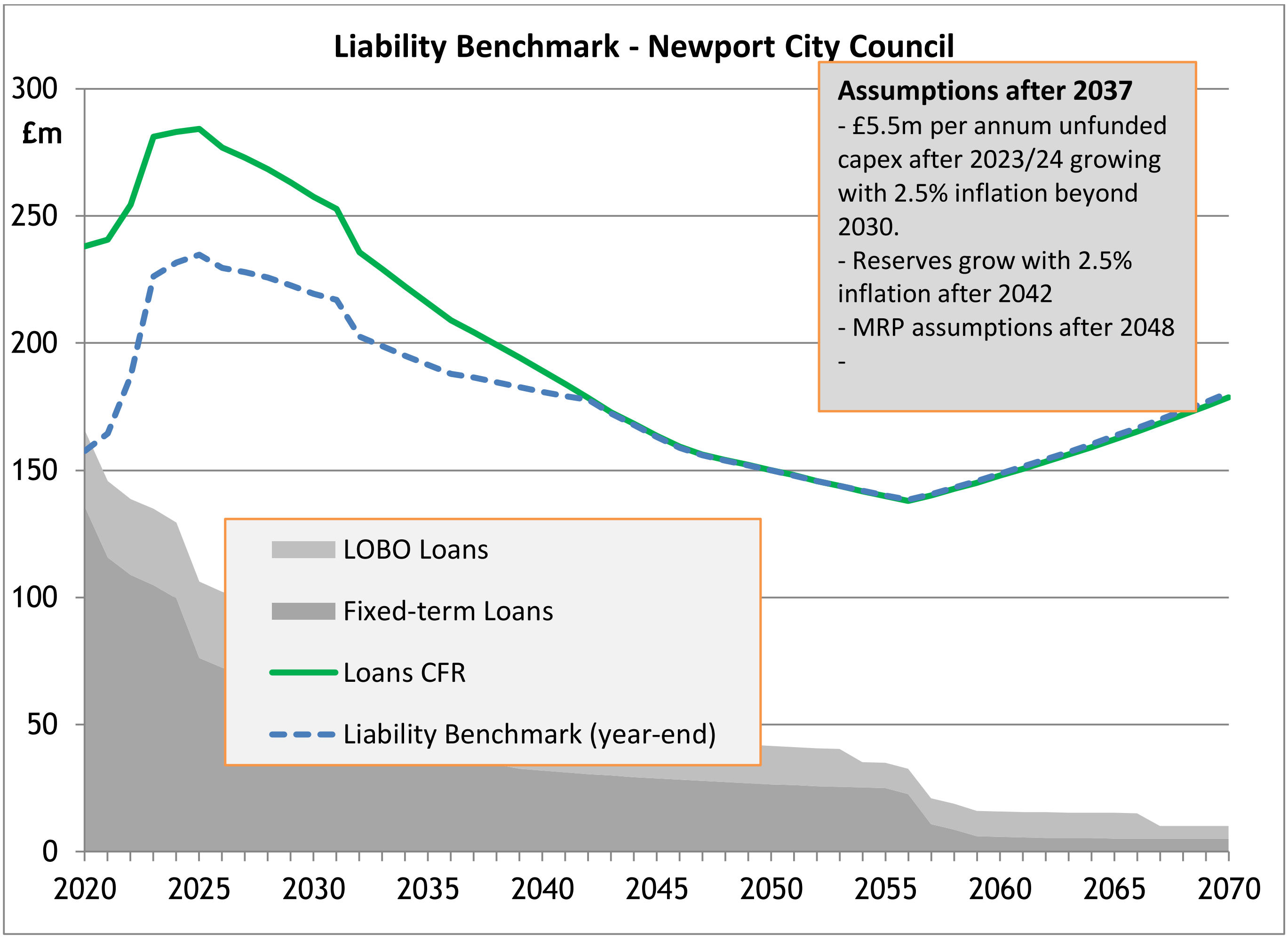
CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2021/22.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability benchmark

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
Loans CFR	237.9	240.4	254.6	281.4	282.8
Less: Usable reserves	(87.1)	(82.8)	(74.0)	(61.5)	(58.1)
Less: Working capital	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Plus: Minimum investments	18.2	10.0	10.0	10.0	10.0
Liability Benchmark	**165.6**	**164.2**	**187.2**	**226.5**	**231.3**

From the table above and chart below it is evident to see the steep increase in the liability benchmark, flagging the need to slow down borrowing beyond the current programme. The long-term liability benchmark beyond the current programme shows a model based on a prudent level of capital expenditure to reduce the long-term liability benchmark. This is shown in the chart below (detail of scenarios for the period of the next 10 years are included in the capital strategy):



The chart above shows actual borrowing maturing over time (grey area reducing), however our need to borrow (the green CFR line) is increasing significantly over the short term due to the extensive capital programme. Over the long-term, to ensure a sustainable position the CFR needs to come down in order for the liability benchmark to stabilise and reduce to current levels, note even with a steep reduction in CFR the liability benchmark doesn't reduce to current levels until 2047. Therefore, the chart is showing the following important points/assumptions:

- To be sustainable the capital financing requirement cannot continue increasing at the rate it is currently, and a prudent limit should be placed on the future capital programme to reduce the CFR over the long-term (set out further in the Capital Strategy)
- The ability to use further internal borrowing has diminished, with internal borrowing reducing over time as reserves are utilised.
- As existing borrowing matures (grey area reducing) there will be the need to refinance this debt over the long-term.
- The liability benchmark is increasing significantly in the short term, meaning that the Council will be required to undertake new borrowing over time, therefore putting pressure on the revenue budget through increased interest payments.
- The only way to reduce this need to borrow is to reduce the level of capital expenditure funded by borrowing.

Borrowing Strategy

The Authority currently holds £149.2 million of loans, a decrease of £17.1 million on the previous year, as part of its strategy for funding previous years' capital programmes, there was also a significant amount of temporary borrowing at year end to cash-flow business grants in the early period of the Covid-19 pandemic. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to

£187.2 million in 2021/22. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £255 million.

Objectives: The Authority's chief 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.

Strategy: 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. 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. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from PWLB but will consider long-term loans from other sources including, banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, 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.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- Sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; 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 full Council.

LOBOs: The Authority holds £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOs have options during 2021/22, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £30m.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: 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 negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

<u>Treasury Investment Strategy</u>

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £12.5 million and £65.2 million, levels of c. £10 to £20 million are expected in the forthcoming year.

Loans to organisations providing local public services i.e. regeneration and purchases of investment property are not normally considered to be treasury investments, and these are therefore covered separately in Appendix C.

Objectives: Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury 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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in the coming year while it has been put on hold due to the Covid-19 pandemic.

Business models: Under the new 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.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£20m	Unlimited
Secured investments *	20 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10 m	£25m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£5m

Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	Not Applicable	£5m 5 years

Pooled funds and real estate investment trusts	£10m per fund or trust

This table must be read in conjunction with the notes below

***Minimum Credit rating:** Treasury investment limits in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £20m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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 higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, 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. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that 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 to the stock market to another investor.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank (in exceptional circumstances i.e. late receipt of significant sums this may be higher for a short-period of time). 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.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 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.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment levels to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £75 million on 31st March 2020. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country

Liquidity management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper-limit on the one-year revenue impact of a 1% rise or fall of interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of 1% fall in interest rates	£100,000

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper**	**Lower**
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	20%	0%

30 years and within 40 years	20%	0%
40 years and within 50 years	20%	0%
50 years and above	20%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

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

Government Guidance: Further matters required by the WG Guidance are included in Appendix 3c

Financial Implications

The budget for investment income in 2021/22 is £0.3 million, based on an average investment portfolio of £10 million at an interest rate of 3%. The budget for debt interest paid in 2021/22 is £7.8 million, based on an average debt portfolio of £2.7 million at an average interest rate of 3.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 3a – Arlingclose Economic & Interest Rate Forecast – December 2020

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.

- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.

- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.

- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.

- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.

- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.

- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 3b – Existing Investment & Debt Portfolio Position

	31/12/2020 Actual Portfolio £m	31/12/2020 Average Rate %
External borrowing:		
Public Works Loan Board	104.3	3.8
Local authorities	0.0	-
LOBO loans from banks	30.0	4.4
Other loans	14.9	1.3
Total external borrowing	**149.2**	**3.7**
Other long-term liabilities:		
Private Finance Initiative	43.0	
Finance Leases	0.1	
Total other long-term liabilities	**43.1**	
Total gross external debt	**192.3**	
Treasury investments:		
Banks (unsecured)	3.8	0.02
Local authorities	25.0	0.19
Total treasury investments	**28.8**	**0.17**
Net debt	**163.5**	

Appendix 3c – Additional requirements of Welsh Government Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Authority, and
- investment property provides a net financial surplus that is reinvested into local public services.

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy to the extent that the Council have invested in our capital programme a number of energy efficiency related schemes, including LED projects and Solar PV.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

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.

Loans: The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

The Authority will provide loans where there has been appropriate due diligence and where possible ensure there is appropriate security i.e. charges on assets. In some cases where security is not available in order to be prudent the Council may fund the loan at the point of drawdown through an appropriate charge i.e. Minimum Revenue Provision charge or through a reserve.

The Authority uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Authority has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in table C2; the Authority confirms that its current non-specified investments remain within these limits.

Table C2: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below [A-]	£10m
Shares in real estate investment trusts	£10m
Total non-specified investments	£10m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. The Council holds investment properties to the fair value of £7.8m on, these give an annual rental income of £1.2m. These are historic investment properties, namely Kingsway shopping centre and Chartist Tower and the Council has not recently undertaken purchase of non-financial investments.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and Newport Norse as property investment advisers. The quality of these services is controlled by regular review of the services provided by both advisers and regular strategy meeting with them.

Appendix 3d – Minimum Revenue Provision Policy

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) 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, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, this is currently deemed to be an average of 40 years.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in on an annuity basis with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

For capital expenditure loans to third parties that are repaid over a short time period 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.

The MRP policy and charges in relation to the Cardiff City Capital Region 'City Deal' will reflect those within the Joint Working Agreement.

Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.
Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £m	**2021/2022 Estimated MRP £m**
Supported capital expenditure	161	4
Unsupported capital expenditure	76	4
Finance leases* and Private Finance Initiative	42	1
Total General Fund	**279**	**9**

*With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase during 2020/21 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2020-21 treasury monitoring report to Council.

Report

Council

Part 1

Date: 3 March 2021

Subject **2021/22 Budget and Medium Term Financial Projections**

Purpose To review the council's council tax increase for 2021/22 and resulting total net revenue budget as recommended by Cabinet on 22 February 2021; agree a Council Tax increase and the resulting council tax resolution for 2021/22.

Author Head of Finance

Ward General

Summary Following recommendation by Cabinet, the Council needs to review and make a decision on the level of council tax and the resulting total net revenue budget for 2021/22.

Cabinet met on the 22 February 2021 and finalised detailed budget recommendations. This report sets out their recommended overall 2021/22 budget, resulting service cash limits, council tax increase and the council's general reserve and contingencies. An increase in council tax of 3.7% (to £1,242.20 per annum at Band D) for Newport City Council is recommended. A 3.7% increase on council tax is an increase of £0.66 per week, £0.76 per week and a £0.85 per week increases for Band B, C and D properties respectively.

The Cabinet have built on the medium term financial projections (MTFP) approved last February and approved further savings to meet the financial challenges facing the council. Despite the better than anticipated draft settlement the requirement for investment in services to meet demand and the administration priorities has resulted in savings still being required. The medium term projections are included within appendix 4.

The Council's financial planning is underpinned by the Council's Corporate Plan 2017-22 that sets out a clear set of aspirations and plans for the future under our mission of 'Improving Peoples lives'. The budget recommended and medium term financial projections include the funding required to deliver key priorities and promises set out within the plan, as needed. In light of the medium term financial sustainability challenge, further work is required to ensure the budget is balanced over the medium term whilst meeting our duties under the well-being objectives.

Section:

Appendix:

Appendix 1	Service area budgets
Appendix 2	Precepts and council tax
Appendix 3	Council tax resolution
Appendix 4	Medium term financial projections (MTFP)
Appendix 5	Financial resilience snapshot
Appendix 5a	Projected earmarked reserves
Appendix 6	Reserves strategy and invest to save protocol

Proposal

Council is asked:

Revenue budget and council tax 21/22 (section 2-8)

1 To note that an extensive consultation exercise has been completed on the 2021/22 budget proposals. Cabinet have taken these into account in recommending final details of their budget

2 To note the Head of Finance's recommendations that minimum General Fund balances be maintained at a level of at least £6.5million, the confirmation of the robustness of the overall budget underlying the proposals, subject to the key issues highlighted in section 7, and the adequacy of the general reserves in the context of other earmarked reserves and a general revenue budget contingency of £1.5million

3 To consider and approve a council tax increase for Newport City Council of 3.7%, a Band D tax of £1,242.20; and resulting overall revenue budget shown in appendix 1

4 To approve the formal council tax resolution, included in appendix 3 which incorporates The Police and Crime Commissioner for Gwent and Community Council precepts

Medium term financial plan (section 5)

5 To note the MTFP and the financial uncertainty facing Local Government over the medium term

6 To note Cabinets approval of the implementation of the four-year plan, including all budget investments and saving options, as summarised within the medium term financial plan (appendix 4). In light of point 5 above it should be noted that financial projections are subject to on-going review and updating

7 To note and approve the councils reserves strategy and invest to save protocol. Estimated reserve balances as at 31 March can be found within appendix 5a.

Action by

Head of Finance – 2021/22 council tax billing and detailed budgets to be prepared in line with recommendation.

Timetable

Immediate

This report was prepared after consultation with:

- Cabinet Member for Community & Resources
- Chief Executive
- Head of Finance
- Head of Law and Regulation

- Head of People and Business Change

Signed

1 Background

1.1 The draft budget proposals for 2021/22, agreed in the January Cabinet meeting, have been subject to public consultation. The proposals have been consulted on through a range of stakeholder groups as set out in paragraph 6.1.

1.2 The draft funding settlement from Welsh Government (WG) for 2021/22 confirmed that funding would increase by 5.58% (5.48% after transfers), which was better than anticipated. This was welcomed as it enabled the council to deal with a number of budget pressures and priorities, including those that would assist in reducing the budget gap over the medium term. Ordinarily, the Council would have received the final settlement from WG by this stage of the year, however given delays in publishing the draft; the final settlement will be announced on the 2 March. Although no changes are anticipated in the final funding allocated to Newport, any change will need to be verbally updated at the Council meeting itself on 3 March.

1.3 Given the better than anticipated draft settlement, Cabinet were given some financial flexibility to meet spending priorities and respond to public consultation by allocating £3.9m 'cash in hand' balance at the February Cabinet meeting. A summary of investment areas is set out in table 1 below and full details of this investment has been included in paragraph 4.1. It was at this stage that the overall net budget and resulting council tax was agreed for recommendation to Full Council.

Table 1: Allocation of funding – February Cabinet

	2021/22 £'000
February 2021 MTFP balance	**(3,988)**
Social care investment - Covid and Brexit challenges, create capacity and resilience and invest in looked after children and child protection (gross investment of £984k partly funded by increase in a WG workforce specific grant)	484
Economic & City centre regeneration and support	1,820
Removal of savings proposal STR2122/02 - Charges for non-household waste	20
Council tax reduction - 5% to 3.7%	753
Other priorities including green infrastructure/ carbon reduction, creating capacity within our workforce and provision to develop and implement initiatives to further increase pride in our City	911
Balance	**0**

1.4 Despite the 2021/22 settlement from WG being much improved from that anticipated, the medium term outlook is still very uncertain which makes planning for the future difficult. The pandemic has seen Wales and the UK experience an unprecedented collapse in economic output and the longer-term impact of national and local lockdowns and ongoing public health measures remains to be seen. It is therefore inevitable that uncertainties such as future WG settlements, the ongoing impact of Covid-19 and subsequent economic recovery and Brexit will mean that current projections will inevitably develop and change as assumptions are confirmed or updated in future years.

1.5 The Chancellor will announce the spring budget early March and although the lack of information to date has been problematic from a planning perspective, a 1.85% uplift in RSG is currently assumed for 2022/23, which will be reviewed in the spring/early summer 2021. Given that in Newport, the Revenue Support Grant (RSG) received from WG contributes 76% to its net budget funding, with council tax making up the balance; what happens to this grant over the medium term is critical.

1.6 The next section explains the link between the medium term outlook and how this translates into the requirement on the council to set a balanced budget.

2 Setting the budget

2.1 There are two main elements to the councils financial planning:
- strategic planning: medium term financial projections (MTFP)
- within that, the annual council budget.

2.2 The council is required by law to set a balanced budget every year. At the same time, the MTFP is reviewed and updated to help plan savings and investments across the next four years. A key part of the review is to ensure that key priorities are included, including those contained within the Corporate Plan.

2.3 The budget has been developed over a number of months starting with a review of existing investments and savings previously agreed, delivery of savings and consideration given to the need for new investment and growth. The priorities of the Corporate Plan and other commitments featured in this review are contained in the MTFP. The budget proposals that have been incorporated into service area cash limits were reviewed in detail with Cabinet.

2.4 Whilst Cabinet are responsible for the detailed spending plans, the council tax level underpinning the overall budget is approved by Council. The proposed budget is included within appendix 1 and is based on detailed proposals approved by Cabinet on 22 February. Members have also had sight of the budget proposals previously via the councils Scrutiny Committees in January. The detailed proposals can be found appended to the Cabinet agenda Budget investments (weblink) and Budget savings (weblink).

2.5 Council should note that Cabinet continues to take a strategic and medium term view and has approved the implementation of the councils four-year savings programme, including all budget investments and saving options as summarised within the MTFP.

2.6 A key part in considering and agreeing the annual budget and MTFP are the financial resilience issues and how the budget deals with improvement plans and risks. These were considered in detail by Cabinet on 22 February and are outlined below in this report for Council.

3 Welsh Government funding

3.1 As the result of the final settlement is not known at the time of writing, Cabinet have finalised 2021/22 budget based on the funding position made up of the draft Revenue Support Grant, the confirmed increase in the Council's tax-base and a requirement for a 3.7% increase in the council tax rate, as recommended to Council.

3.2 It is important to note that whilst the settlement from WG was much improved for 2021/22 the medium term outlook is still very uncertain which makes planning for the future extremely challenging. The UK Budget that will be announced on the 3 March should provide some clarity in terms of future WG funding, however, for Local Government, much will depend on WG budget decisions thereafter, in particular on NHS funding in Wales. Once the outcome of the Spring UK Budget is known, the medium term projections will require review and updating in Spring/early Summer 2021.

3.3 Despite this uncertainty, Council should note that the Welsh Local Government Association (WLGA) and others continue to push for medium term settlements or indicative future funding. Whilst the absence of medium term settlements is not ideal or helpful, it does not necessarily prohibit medium term planning.

3.4 Although councils have until the 11 March each year to set council tax, in practical terms, to delay beyond this meeting date would cause delays to billing and collection of council tax. This would have a significant adverse impact on the collection of Council Tax, already challenging due to Covd-19 and therefore the Council's cash flow.

4 2021/22 budget requirement

4.1 Funding levels for service areas, based on the final proposals, are shown in appendix 1 with the detailed budget investments / pressures and savings shown in the February Cabinet report (weblink). These funding levels include investment decisions that were taken at the February Cabinet meeting itself, details of which are set out below:

Investments:

- £984k further investment in social care to support the challenges associated with ongoing issues of the pandemic and sustainability challenge posed by Brexit, partly funded by an increase in a WG Workforce specific grant;
- £1,820k investment for economic and city centre regeneration and support;
- £911k investment in other priorities including creating capacity within our workforce, green infrastructure/sustainability/de-carbonisation and provision to develop and implement initiatives to further increase pride in our city.

As some of the detail to some of the above investments require further refinements and completion, their funding has, for now, been allocated to non-service areas. Once the finer details have been confirmed, the budget will be transferred to the responsible service areas. Proposed service area budgets for 2021/22 can be found in appendix 1.

Removal of savings:

- £20k – remove household waste recycling centre (HWRC) proposal (STR2122/02)
- Reduce council tax increase from 5% to 3.7%.

4.2 As was well documented within the February Cabinet report, Newport received the greatest share of the 3.8% net funding increase for Local Government across Wales, and much higher than that included within planning assumptions. The revised datasets used for the allocation of funding reflects the significantly increasing population numbers and school pupil numbers in Newport. With increasing population comes increasing demand and therefore greater costs, which are to be borne by the council in terms of increasing demand for essential services. Therefore, further savings have been required to meet the gap between the funding received through grants/ council tax collection and expenditure on the wide variety of services provided.

4.3 Proposals for 2021/22 include over £19m of budget investments / pressures (including inflation). The most significant areas of additional expenditure are linked to:

- £4,937k investment in school budgets. As stated within the February update, provision for teachers and non-teaching staff pay awards within schools will be distributed to schools after confirmation of any pay award by the WG, with the aim of maintaining a funding increase, which at least reflects the cost increases within schools within available resources;
- £2,460k for increasing social care demand for both children's and adult services including further investment to support the challenges associated with ongoing issues of the pandemic and sustainability challenge posed by Brexit;
- £305k investment to deliver the promises set out within the Corporate Plan such as the delivery of digital aspirations and a new household waste recycling centre
- £2,731k provision for supporting city centre and regeneration projects and other corporate priorities.

4.4 In addition to this base budget investment, significant specific grants are received from WG each year and at this time; we still await the finer details of funding levels for 2021/22. Specific grants are a key element of Councils funding which often assists in supporting core service delivery. As noted within the February report, It is likely that a small number of grants will see decreases in funding during 2021/22 and it is proposed, in line with the Council's current working policy, that service areas deal with these matters with Cabinet Members in terms of identifying issues as they become aware of them and developing necessary solutions to resolve them. This may involve reducing/ stopping services that WG specific grants no longer fund. These grants will be included within service areas budgets once the value and conditions are known.

5 Medium term financial plan (MTFP)

5.1 The Council's financial planning is underpinned by the Council's Corporate Plan 2017-22 that sets out a clear set of aspirations and plans for the future under our mission of 'Improving Peoples lives'. This provides a focus for decisions around spending and will direct activity across the council. The current medium term financial projections included in appendix 4 includes funding for the key priorities and promises set out in the plan, as needed.

5.2 The MTFP is the articulation of the financial challenges and includes the savings identified over the next four years. It includes those savings, which have previously been approved over the life of this plan in February 2020 Cabinet meeting as well as new proposals. Whilst the Council is required to set a balanced budget for 2021/22, this is to the backdrop of sustaining over £35m of savings over the last five years. Future uncertainties such as future WG financial settlements, the on-going impact of Covid-19 and subsequent economic recovery and Brexit will mean that current projections will inevitably develop and change as assumptions are updated or confirmed for future years.

5.3 Despite the favourable draft settlement for 2021/22, there is uncertainty on funding levels allocated to Local Government beyond 2021/22. Whilst it is appreciated that the 2020 Comprehensive Spending Review (CSR) was undertaken in unprecedented conditions as the nation continued to deal with the impact of the Covid-19 pandemic on people, the economy and public finances, the Treasury were unable to deliver a three-year review that had initially been planned.

5.4 Furthermore, the date for the 2021 Spring Budget has been confirmed and will take place on 3 March 2021. The Chancellor has had to deal with challenges to the UK economy it has not faced in 300 years and this Budget will be a landmark Budget, not only because of the pandemic, but also because it will be the UK's first Budget as an independent country outside the EU for over 40 years. All of these factors point to this budget being particularly important. Although this may provide more certainty on the medium term outlook for Welsh Government funding; for Local Government itself , much will depend on WG budget decisions, in particular on NHS funding in Wales. The projections set out within the MTFP will require updating when the outcome of the Spring Budget is known.

6 Budget consultation

6.1 The budget proposals agreed by Cabinet in January have been consulted on through a range of stakeholder groups and formats, which are as follows:

- With Trade Unions via the Employee Partnership Forum on 4 February 2021;
- With all Scrutiny Committees in their January 2021 meetings where Members discussed the detailed change and efficiency programmes plus the MTFP;
- With the Schools' Forum on 14 January 2021;
- With the public from 8 January 2021 to 12 February 2021;
- Newport Fairness Commission has reviewed the proposals in terms of their parameters of fairness.

The detailed results of the consultation were shared at the February Cabinet meeting. In summary, there was a general acknowledgement of the financial pressures facing the Council reflected in support for the majority of proposals.

Fairness and Equality Impact Assessments (FEIAs)

6.2 In line with the council's legal duties as set out in the Equality Act 2010 and the Welsh Language (Wales) Measure 2015, all budget proposals have undergone a full equality impact assessment, which have been updated to reflect public consultation responses.

6.3 As part of the budget process, equality implications are considered for all budget proposals and where necessary an EIA carried out by the relevant service manager, supported by the council's policy team. These were updated, as necessary, following the budget consultation exercise and used by the Cabinet in their final budget decisions in their February meeting.

6.4 As part of the council's Equality Duties, the authority is required to evidence its consideration of the impacts of decisions on people that share Protected Characteristics. The Welsh Government also intend to enact the Socio-economic Duty on the 31 March 2021 which requires the council to pay due regard, in its strategic decision making, to the need to minimise inequalities of outcome arising as a result of socio-economic disadvantage. Although budget decisions will be made prior to this date, the council wish to act in the spirit of the Duty and have considered key 'domains' of inequalities of outcome in line with those included in the Welsh Index of Multiple Deprivation (WIMD) and the Equality and Human Rights Commission's Measurement Framework for Equality and Human Rights.

7 Risk, reserves, financial resilience and performance

7.1 The proposed budget includes a number of assumptions in terms of income and expenditure levels over the medium term. There are, therefore, inevitably a number of financial risks inherent in the proposed budget. The key financial risks are highlighted below.

Financial risks

7.2 The proposed budget incorporates a number of assumptions in terms of levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget, which were described in detail to Cabinet when finalising budget proposals. Key risks include;

- continuation of costs related to Covid and WG 'hardship funding' to assist with these and the wider economic recovery
- Brexit.
- continuation of demand beyond the level of investment approved resulting in cost pressures in the future
- significant budget challenge for schools
- delivery of savings
- issues requiring one-off resources
- inflationary pressures on the budget

As the February update explains, current year underspends and one-off funding which the Cabinets budget will produce over the next 2-3 years provides funds to support the priorities of the Council administration. The Head of Finance recommends that these, in part, are also used initially to provide financial mitigation for the risks above, in particular Covid/ Brexit and can be released in due course when there is more clarity on the situation. More details and recommendations will be confirmed within the Cabinets June meeting when the revenue outturn is confirmed.

Reserves

7.3 In terms of contingencies and reserves, the Head of Finance needs to review these in their totality in conjunction with the base budget and the financial risks associated with delivering the budget in 2021/22. This review should incorporate a medium term view and take into account key developments that may affect the need for and use of one off resource.

7.4 Protection against budget risks is provided through earmarked reserves and contingencies. In addition, the Council has a number of earmarked reserves for known, but not always easily quantifiable, financial risks.

7.5 A 'rule of thumb' analysis for determining the level of general reserves suggests this is at least 5% of net revenue expenditure (excluding schools' budgets); unless a formal risk assessment justifies a lower level. This implies a level of around £10m for Newport and this has grown compared to current general reserves levels as the Councils net budget has grown fairly substantively over the last few years. Whilst this implies that the Council could prudently consider increasing the current level, in the context of the above and the financial risks inherent in the proposed budget, the Head of Finance recommends that the current minimum level of general reserves could remain at its current minimum level of at least £6.5m. This is on the basis it is supported by the base general budget contingency of £1.5m and the Council has other reserves which could be deployed to augment this, though, as earmarked for specific purposes, they would most likely lead to on-going budget pressures to replenish if used. Nonetheless, in the worst-case scenario, they are available for use and are key considerations when assessing the level of minimum general reserves.

7.6 An analysis of projected earmarked reserves can be found in appendix 5.

Financial resilience

7.7 A robust view is being taken in managing budget risks and protecting the financial health of the Council. In that respect, the Council's financial resilience is a key consideration and appendix 5 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council at this time. Key headlines include:

- The Council maintains a good level of reserves. A cautionary note should be made in respect of the decline in school reserves over the last few years as although current projections suggest a forecast underspend of £953k, this is largely as a result of lower than estimated costs due to Covid
- The Council continues to monitor £5.4m of budget reductions in 2020/21. This is alongside delivering outturn within budget over recent years, despite the delivery of £35m of savings over the last 5 years
- In light of continuing financial pressures and demands placed on the Council further savings of around £9m are likely to be needed for 2022/23 to 2024/25, based on current assumptions around the continuation of future grant funding.

7.8 The impact of these challenges are reviewed as part of the financial monitoring process and through the corporate risk register both of which are reported regularly to the Cabinet, Corporate Management Team and the Council's Audit Committee.

7.9 The base revenue budget contingency, alongside the level of recommended general and earmarked reserves reflect the overall potential financial risk associated with delivering the budget in 2020/21. These provide sufficient capacity to cover financial risks. Once schools have taken the necessary action to reduce their cost base, the Head of Finance, as part of his S151 responsibilities, is content that the 2021/22 overall budget as proposed is robust

8 2021/22 proposed council tax

8.1 Newport continues to have one of the lowest council tax in Wales, amongst the lowest in the UK and spends significantly lower than its standard spending assessment (SSA) compared with other Local Authorities. Whilst changes in council tax levels are usually noted in percentage terms, the cash increase this delivers in Newport will be smaller relative to other Local Authorities as our starting position is lower.

8.2 Cabinet have recommended 3.7% council tax increase to Council, which is below the base assumptions of 4% made in future years. This would result in a Band D council tax of £1,242.20, which is an increase of £0.85 per week for Band D properties. Although the draft 2021/22 settlement was more favourable than anticipated this is a one year benefit whereas the decision on council tax levels will have a longer term impact on our overall funding and how we compare against our standard spending assessment (SSA). Therefore, the key consideration for the Cabinet has been to ensure that the correct balance has been found between both council tax increases and savings. The budget includes over £3m of savings and £2m from extra income from council tax. Newport's council tax is currently the third cheapest in Wales and spends £9.2m less than SSA, which is almost entirely down to the low council tax. This shortfall is expected to increase to £11m in 2021/22 given that the standard council tax increase used in the settlement is based on an increase of 5.1% in 2021/22. For Newport, a council tax increase lower than 5.1% would see the council fall further behind SSA.

8.3 The Council is investing £2.5m in social care and £4.9m in schools. As referenced in paragraph 4.3, the provision for teachers and non-teaching staff pay awards within schools will be held in non-service budgets and distributed to schools after confirmation of any pay award. The 3.7% council tax increase generates around £2m. Therefore, Cabinet are mindful that this increase in council tax is a valuable contribution to protect the services that the Council delivers.

8.4 Based on the recommended 3.7% council tax and changes to the draft budget outlined in 4.1 above, the table below illustrates the net budget and funding agreed by Cabinet at its meeting on 22 February 2021.

Table 2: 2021/22 available and required budget

The table below shows the available and required budget funding with a 3.7% increase in council tax. Cabinet will be aware that beyond 2020/21 there has been a 4% increase implicit in our MTFP planning parameters. In setting council tax, the Council needs to be aware of the need to set a balanced budget.	
Council Tax at Band D at 3.7%	£1,242.20
Budget requirement	**£000**
Base budget 2020/21	300,270
Inflation & increments	7,744
Budget investments – (£11,327k (inc. £209k of transfers in from RSG) shown in list of pressures plus increase of £480k required in council tax benefit based on 3.7% council tax increase)	11,807
Budget savings	(3,391)
Specific grants	(500)
DRAFT BASE BUDGET 2021/22	**315,930**
Draft funding available	
Draft WG settlement	240,796
Current council tax at new tax base	72,193
Increased council tax @ 3.7%	2,941
Total	**315,930**
Balance	-

8.5 The final budgets, as detailed in appendix 1, incorporate the above recommendations. In finalising the budgets from the draft, Cabinet were aware of the key messages/ concerns/ support coming out of the consultation.

8.6 The Cabinet was also mindful of the need to balance the interests of service users with taxpayers given the current economic climate and in addition, noted that the council tax, even with the increase recommended, would still be low in comparison to other Welsh Authorities.

Community / Police precepts and Council Tax calculation

8.7 The council tax calculation includes precept figures from The Police and Crime Commissioner for

Gwent and precept figures from Community Councils within the City as well as the City council's own budget. These are shown in appendix 2. The resulting council tax resolution is set out in appendix 3. These are based on the budget proposals agreed by Cabinet on 22 February 2021.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Budget savings not delivered	H	L	(i) robust budget monitoring (ii) service planning (iii) retention of reserves and budget contingency	Head of Finance/ Heads of Service
Budget savings not delivered on time leading to in year overspending	H	M	(i) robust budget monitoring (ii) retention of reserves and budget contingency	Directors / Heads of Service/ Head of Finance
Schools overspending against budget	H	M	(i) robust budget monitoring (ii) early review of school's position (iii) clear expectations set and robust communications between schools and the council	Head of Finance/ Directors / Heads of Service
Unforeseen Pressures	H	L	(i) retention of reserves and budget contingency (ii) robust budget review	Head of Finance/ Directors / Heads of Service

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

In drawing up budget proposals, due regard has been given to key council policies and priorities and Cabinet, in setting the detailed budget and spending plans, considered these in detail in their February meeting. Details are included in the February 2021 budget paper, which confirm that the key priorities and promises set out in the Corporate Plan are funded appropriately to meet the targets proposed.

Options Available and considered

The Council must approve a recommended council tax and resulting overall revenue budget for 2021/22.

Preferred Option and Why

Council has various options available to them on the level of council tax and therefore the overall total revenue budget for the Council.

Comments of Chief Financial Officer

It is important that the Council agree a Council Tax level at this meeting. It is being held as late as reasonably possible given this Council's timetable for billing and first Direct Debits dates in April. Any delay would cause significant and serious financial problems.

The Council Tax level is a matter for Council. The HoF would comment that the following key issues are taken into consideration in addition to the impact on households in these unprecedented / uncertain times;

- This Councils Council Tax level is lower than most comparable Councils in Wales/UK and in context of the city's growth and relative deprivation levels, does cause financial challenges in terms of services capacity.
- A low rate which further widens the gap further between the Councils tax rate and the average for the sector would be problematic and have a medium-long term impact.

There is some additional funding allocated in the Cabinet's budget which deals with the Covid/ Brexit risk but it is recommended that further short term mitigation is provided via the current financial years underspend and further one-off funding generated from this budget until there is clarity on the WG hardship fund and how costs and services are actually impacted. This can be confirmed in the June Cabinet meeting when the current year's budget outturn is confirmed.

Comments of Monitoring Officer

The Revenue Budget Report and MTFP Projections have been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Council must have regard to the advice of the Head of Finance, as the Council's Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the recommendations from Cabinet regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the overall budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. Therefore, the recommendations of the Cabinet are subject to ratification and approval by full Council, insofar as they relate to the overall budget and Council tax proposals for 2021/22. However, the approval and implementation of the individual savings and investment proposals within the Report are executive matters for the Cabinet and the Heads of Service, in accordance with the scheme of delegation, provided that they are in accordance with the general budget framework set by the Council.

Comments of Head of People and Business Change

In its February meeting Cabinet considered the results of a budget engagement programme, which despite difficult circumstances achieved 600 responses. Following the involvement of citizens in the budget setting process, Cabinet has proposed to reduce the increase in Council Tax and has agreed revised savings for 2021/22.

Medium term financial planning helps the Council to ensure financial sustainability over the longer term. In delivering the Corporate Plan priorities against a backdrop of city expansion and uncertainty in the medium term funding from Welsh Government, Cabinet are mindful of the need to balance immediate financial savings against investment and growth opportunities in the years ahead.

Comments of Cabinet Member

The Chair of Cabinet, as Cabinet Member for resources has approved the report for consideration and approval by Cabinet.

Local issues

The budget proposals as shown affect the City as a whole although some specific proposals may affect certain localities more than others.

Scrutiny Committees

All detailed proposals were reviewed by all Scrutiny Committees in their January 2021 meetings, as part of the wider budget proposals consultation undertaken and considered by Cabinet.

Equalities Impact Assessment and the Equalities Act 2010

In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 22 February 2021.

Children and Families (Wales) Measure

Wide consultation on the budget has been undertaken, as outlined in section 6 of the report.

Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations Act 2015, which came into force in April 2016 provides a framework for embedding sustainable development principles within the activities of Council and has implications for the long-term planning of finances and service provision. The business cases used to develop savings proposals include specific linkage with Future Generation Act requirements of the "five ways of working".

Integration – A quality assurance process is in place to ensure that the council delivers a sustainable budget that ensures the impact of any proposals is managed in terms of the wellbeing of our communities.

Long Term – A medium term approach is important in ensuring financial sustainability over the longer term. Whilst the funding from WG over the medium term is uncertain it is imperative that medium term planning is at the forefront of budget discussions. In light of the Corporate Plan priorities, the Cabinet are mindful of the need to target investment and growth within the financial envelope that is available.

Prevention – The council is mindful of the demographic increases, expansion and growth that we are seeing across the City and the potential impact that this could have on the services that we provide. With this comes increasing demand and therefore costs which have been reflected within the medium term projections. The Council's financial planning is underpinned by the Council's Corporate Plan 2017-22 that sets out a clear set of aspirations and plans for the future under our mission of 'Improving Peoples lives'. A key part of the Plan and therefore the areas of investment relates to prevention and increasing resilience of communities.

Collaboration – A key part of our Corporate Plan relates to working alongside partners to deliver key public services. Whilst this budget presents significant savings, the base budget for 2021/22 continues to support numerous examples of multi-agency working particularly with public service board partners.

Involvement – During the 2021/22 budget consultation 600 members of the public were engaged. This is a significantly lower figure than the previous year, when a record response was recorded; however, this reflects the huge challenges and impacts on society brought about by the Covid19 public health crisis. Public engagement work has increased over the course of this year as we have made efforts to engage with communities affected by Covid-19. The council seeks to involve and inform key stakeholders whilst setting out the financial context. The results of this engagement is key to budgetary decisions.

The Well-being of Future Generations Act has involvement as one of the five ways of working under the sustainable development principle. Involvement in the development of this budget has included a five-week period of public consultation and consultation with Trade Unions via the Employee Partnership Forum, with all Overview and Scrutiny Committees, with the Schools' Forum and with the Council's Fairness Commission.

Crime and Disorder Act 1998

N/A

Consultation

Wide consultation on the budget has been undertaken, as outlined in section 6 of the report.

Background Papers

Budget report presented to Cabinet on 22 February 2021.

Dated: 3 March 2021

Mae'r dudalen hon yn wag yn

APPENDIX 1 – Service Area Budgets

2021/22 Summary Revenue Budget	2020/21 Current Budget £'000	2021/22 Base Budget £'000
People		
Children and Young People	25,855	26,743
Adult and Community Services	49,215	51,495
Education	15,754	16,081
Schools	106,527	110,239
	197,352	**204,558**
Place		
Regeneration, Investment and Housing	10,158	12,141
City Services	24,624	25,287
	34,782	**37,428**
Chief Executive		
Directorate	515	525
Finance	3,482	3,541
People and Business Change	8,378	8,551
Law and Regulation	6,628	6,796
	19,003	**19,413**
Capital Financing Costs and Interest		
Capital Financing Costs and Interest (Non-PFI)	14,347	16,591
Public Finance Initiative (PFI)	8,854	9,007
	23,201	**25,598**
Sub Total - Service/Capital Financing	**274,338**	**286,997**
Contingency Provisions		
General Contingency	1,473	1,473
Centralised Insurance Fund	581	593
Other Income and Expenditure	489	3,294
	2,543	**5,360**
Levies / Other		
Discontinued Operations - pensions	1,517	1,447
Discontinued Operations - Ex Gratia Payments	2	3
Levies - Drainage Board, Fire service etc	8,704	9,200
CTAX Benefit Rebates	13,465	13,375
	23,688	**24,025**
Transfers To/From Reserves		
Base budget - Planned Transfers to/(from) Reserves	(299)	(452)
	(299)	**(452)**
Total	**300,270**	**315,930**
Funded By		
WG funding (RSG and NNDR)	(228,077)	(240,796)
Council Tax	(72,193)	(75,134)
Total	-	-

These are indicative budgets for 2021/22. Final Cash limits will be agreed during March Council.

Mae'r dudalen hon yn wag yn

APPENDIX 2 – Precepts and Council Tax

The funding required from council tax for the recommended draft 2021/22 budget is an increase of 3.7%. The tables below show all the figures involved in that calculation.

The Tax Base

This is the number of properties that attract council tax for the year, expressed as if they were all in Band D. In practice, Band A properties only pay 66% of the Band D council tax whilst a Band I property pays 233% of the Band D council tax. For 2021/22, the tax base is 60,484.59 (2020/21 – 60,267.55).

Calculation of the Council Tax – Newport City Council

The calculation of the council tax follows the process shown below

	£000
Net budget requirement	315,930
Less WG funding	240,796
Equals that which needs funding from council tax	75,134
	£
Divided by tax base (60,484.59) gives a council tax at Band D	1,242.20

Calculation of the Council Tax – The Police and Crime Commissioner for Gwent and Community Councils

The final council tax also incorporates other demands (precepts) that the Council collects on behalf of other bodies. These bodies are The Police and Crime Commissioner for Gwent (PCC for Gwent) and the Community Councils within the City's boundary. Of these, The Police and Crime Commissioner for Gwent is the largest and for 2021/22, has set a precept of £17,417,143.

Authority	**Budget requirement / Precept from Council Tax (£'000)**	**Tax Base**	**Council Tax at Band D**		**% Change**
			2021/22	**2020/21**	
Newport City	£75,134	60,484.59	£1,242.20	£1,197.88	3.7%
PCC for Gwent	£17,417	60,484.59	£287.96	£272.96	5.5%

The table below lists the precepts and Band D council tax for the Community Councils within Newport City boundary, for which the Council collects council tax

Community Council	**Council Tax Base**	**2021/22 Precept (£)**	**Council Tax at Band D**		**% Change**
			2021/22	**2020/21**	
Bishton	773.09	28,681.00	37.10	36.93	0.5%
Coedkernew	997.25	2,991.75	3.00	3.50	-14.3%
Goldcliff	186.80	4,109.60	22.00	22.00	-
Graig	3019.80	78,514.80	26.00	26.00	-
Langstone	1933.24	63,797.25	33.00	33.00	-
Llanvaches	242.15	5,448.38	22.50	22.50	-
Llanwern	1008.12	16,620.00	16.49	15.57	5.9%
Marshfield	1517.27	30,345.40	20.00	20.00	-
Michaelstone - Y - Fedw	165.90	6,221.25	37.50	37.50	-
Nash	135.63	3,100.00	22.86	22.58	1.2%
Penhow	460.63	19,677.00	42.72	38.55	10.8%
Redwick	115.48	4,300.00	37.24	35.32	5.4%
Rogerstone	5478.66	154,662.57	28.23	27.79	1.6%
Wentlooge	366.26	18,291.00	49.94	25.23	97.9%

The council tax payable by households is the total of the Newport City Council, The Police and Crime Commissioner for Gwent and, where relevant, the Community Council taxes payable in the above tables. As already noted, the actual council tax payable by households will vary from the figures above as they represent those at the Band D only. The tables included in section 5 of the council tax resolution at appendix 3 show the actual council tax for each Band.

APPENDIX 3 – Council Tax Resolution

RESOLUTION TO SET COUNCIL TAX LEVELS

1. That the revenue estimates for 2021/22, as recommended by the Cabinet on 22 February 2021 be approved.

2. That it be noted that the Council at its meeting on 20 February 2007 delegated the setting of the tax base to the Head of Finance and that on 10 November 2020, the Head of Finance acting in accordance with that delegation calculated the following amounts for the year 2021/22 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992:-

   (a) Council Tax Base

   60,484.59 being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (calculation of council tax base) Regulations 1992, as its council tax base for the year;

   (b) Council Tax base for parts of the Council's Area

Area	Tax base
Bishton	773.09
Coedkernew	997.25
Goldcliff	186.80
Graig	3,019.80
Langstone	1,933.24
Llanvaches	242.15
Llanwern	1008.12
Marshfield	1,517.27
Michaelstone	165.90
Nash	135.63
Penhow	460.63
Redwick	115.48
Rogerstone	5,478.66
Wentlooge	366.26

3. That the following amounts be now calculated by the Council for the year 2021/22 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

   (a) £477,567,528.00 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (e) of the Act ***(Gross Expenditure)***.

   (b) £161,200,315.00 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act ***(Gross Income)***.

   (c) £316,367,213.00 being the amount by which the aggregate at (3)(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year ***(Budget + Community Council precepts)***.

(d) £240,796,468.00 being the aggregate of the sums which the Council estimates will be payable for the year into its council fund in respect of redistributed non-domestic rates, revenue support grant or additional grant ***(RSG + NNDR)***.

(e) £1,249.42 being the amount at 3(c) above less the amount at 3(d) above, all divided by the amount at 2(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its council tax for the year ***(Average Band 'D' Tax for NCC including Community Councils)***.

(f) £436,760.00 being the aggregate amount of all special items referred to in Section 34(1) of the Act and detailed below ***(Community Council precepts)***.

Area	Special Item £
Bishton	28,681.00
Coedkernew	2,991.75
Goldcliff	4,109.60
Graig	78,514.80
Langstone	63,797.25
Llanvaches	5,448.38
Llanwern	16,620.00
Marshfield	30,345.40
Michaelstone	6,221.25
Nash	3,100.00
Penhow	19,677.00
Redwick	4,300.00
Rogerstone	154,662.57
Wentlooge	18,291.00
	436,760.00

(g) £1,242.20 being the amount at 3(e) above less the result given by dividing the amount at 3(f) above by the amount at 2(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates ***(NCC Band 'D' Council Tax)***.

(h) <u>Council Tax level for parts of the Council's Area</u>

Area	Basic Council Tax £
Bishton	1,279.30
Coedkernew	1,245.20
Goldcliff	1,264.20
Graig	1,268.20
Langstone	1,275.20
Llanvaches	1,264.70
Llanwern	1,258.69
Marshfield	1,262.20
Michaelstone	1,279.70
Nash	1,265.06
Penhow	1,284.92
Redwick	1,279.44
Rogerstone	1,270.43
Wentlooge	1,292.14

Being the amounts given by adding to the amount at 3(g) above, the amounts of the special item or items in 3(f) divided by the amount at 2(b) for the specified area of the council. These amounts are calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its council tax for the year for dwellings in those parts of its area to which one or more special items relate.

NCC + Community Councils	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
Bishton	852.86	995.02	1,137.16	1,279.30	1,563.58	1,847.88	2,132.16	2,558.60	2,985.04
Coedkernew	830.13	968.49	1,106.85	1,245.20	1,521.91	1,798.62	2,075.33	2,490.40	2,905.47
Goldcliff	842.80	983.27	1,123.74	1,264.20	1,545.13	1,826.07	2,107.00	2,528.40	2,949.80
Graig	845.46	986.38	1,127.29	1,268.20	1,550.02	1,831.85	2,113.66	2,536.40	2,959.14
Langstone	850.13	991.83	1,133.51	1,275.20	1,558.57	1,841.96	2,125.33	2,550.40	2,975.47
Llanvaches	843.13	983.66	1,124.18	1,264.70	1,545.74	1,826.79	2,107.83	2,529.40	2,950.97
Llanwern	839.12	978.99	1,118.84	1,258.69	1,538.39	1,818.11	2,097.81	2,517.38	2,936.95
Marshfield	841.46	981.72	1,121.96	1,262.20	1,542.68	1,823.18	2,103.66	2,524.40	2,945.14
Michaelstone	853.13	995.33	1,137.51	1,279.70	1,564.07	1,848.46	2,132.83	2,559.40	2,985.97
Nash	843.37	983.94	1,124.50	1,265.06	1,546.18	1,827.31	2,108.43	2,530.12	2,951.81
Penhow	856.61	999.39	1,142.15	1,284.92	1,570.45	1,856.00	2,141.53	2,569.84	2,998.15
Redwick	852.96	995.12	1,137.28	1,279.44	1,563.76	1,848.08	2,132.40	2,558.88	2,985.36
Rogerstone	846.95	988.12	1,129.27	1,270.43	1,552.74	1,835.07	2,117.38	2,540.86	2,964.34
Wentlooge	861.42	1,005.00	1,148.57	1,292.14	1,579.28	1,866.43	2,153.56	2,584.28	3,015.00
All Other Parts of the City	828.13	966.16	1,104.18	1,242.20	1,518.24	1,794.29	2,070.33	2,484.40	2,898.47

Being the amounts given by multiplying the amounts at 3(g) and 3(h) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in the valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. That it be noted for the year 2021/22, that The Police and Crime Commissioner for Gwent has stated the following amount in precept issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

The Police and Crime Commissioner for Gwent	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
All Parts of the City	191.97	223.97	255.96	287.96	351.95	415.94	479.93	575.92	671.91

5. That having calculated the aggregate in each case of the amounts at 3(i) and 4 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of council tax for the year 2021/22 for each of the categories of dwelling shown below:-

Total Council Tax Demand	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
Bishton	1,044.83	1,218.99	1,393.12	1,567.26	1,915.53	2,263.82	2,612.09	3,134.52	3,656.95
Coedkernew	1,022.10	1,192.46	1,362.81	1,533.16	1,873.86	2,214.56	2,555.26	3,066.32	3,577.38
Goldcliff	1,034.77	1,207.24	1,379.70	1,552.16	1,897.08	2,242.01	2,586.93	3,104.32	3,621.71
Graig	1,037.43	1,210.35	1,383.25	1,556.16	1,901.97	2,247.79	2,593.59	3,112.32	3,631.05
Langstone	1,042.10	1,215.80	1,389.47	1,563.16	1,910.52	2,257.90	2,605.26	3,126.32	3,647.38
Llanvaches	1,035.10	1,207.63	1,380.14	1,552.66	1,897.69	2,242.73	2,587.76	3,105.32	3,622.88
Llanwern	1,031.09	1,202.96	1,374.80	1,546.65	1,890.34	2,234.05	2,577.74	3,093.30	3,608.86
Marshfield	1,033.43	1,205.69	1,377.92	1,550.16	1,894.63	2,239.12	2,583.59	3,100.32	3,617.05
Michaelstone	1,045.10	1,219.30	1,393.47	1,567.66	1,916.02	2,264.40	2,612.76	3,135.32	3,657.88
Nash	1,035.34	1,207.91	1,380.46	1,553.02	1,898.13	2,243.25	2,588.36	3,106.04	3,623.72
Penhow	1,048.58	1,223.36	1,398.11	1,572.88	1,922.40	2,271.94	2,621.46	3,145.76	3,670.06
Redwick	1,044.93	1,219.09	1,393.24	1,567.40	1,915.71	2,264.02	2,612.33	3,134.80	3,657.27
Rogerstone	1,038.92	1,212.09	1,385.23	1,558.39	1,904.69	2,251.01	2,597.31	3,116.78	3,636.25
Wentlooge	1,053.39	1,228.97	1,404.53	1,580.10	1,931.23	2,282.37	2,633.49	3,160.20	3,686.91
All Other Parts of the City	1,020.10	1,190.13	1,360.14	1,530.16	1,870.19	2,210.23	2,550.26	3,060.32	3,570.38

APPENDIX 4 – Medium Term Financial Plan (MTFP)

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Funding					
Change in WG Revenue Support Grant (+5.6% in 21/22, +1.85%, +1.18% and 1% thereafter)	(12,719)	(4,297)	(2,755)	(2,350)	**(22,121)**
Increase in tax base - C.Tax @ 21/22 rate	(110)	-	-	-	**(110)**
C. Tax @ 3.7% 21/22 and 4% thereafter	(2,681)	(3,005)	(3,126)	(3,251)	**(12,063)**
Less consequential increase in benefits	330	601	625	650	**2,206**
Specific grant - social care workforce grant	(500)	-	-	-	**(500)**
Change in Income/Funding	**(15,680)**	**(6,701)**	**(5,256)**	**(4,951)**	**(32,588)**
Revenue Investments / Increased Costs					
Pricing - Pay Inflation & Increments (non schools)	1,742	2,481	1,509	1,539	**7,271**
Pricing - Contract/ Income Inflation (non schools)	3,126	2,815	2,918	3,024	**11,883**
Pricing - Pay Inflation & Increments (schools)	2,917	2,649	2,205	2,091	**9,862**
Pricing - Contract/ Income Inflation (schools)	172	179	186	194	**731**
Demand - Schools	1,848	1,547	1,309	1,075	**5,779**
Standstill/ 'committed' position	**9,805**	**9,671**	**8,127**	**7,923**	**35,526**
Demand - Social Care	1,557	(63)	-	-	**1,494**
Demand - Other	65	270	157	192	**684**
Other	5,175	-	-	-	**5,175**
Investments - Corporate Plan Promise	305	175	-	-	**480**
Capital Financing - other	2,164	-	-	208	**2,372**
Total Pressures	**19,071**	**10,053**	**8,284**	**8,323**	**45,731**
Gap Before Cost Reduction Plans	**3,391**	**3,352**	**3,028**	**3,372**	**13,143**
Cost Reduction - Transformation / Change Programme					
Cost reduction - new savings	2,742	249	-	-	**2,991**
Cost reduction - previously agreed savings	649	563	-	-	**1,212**
Total Savings	**3,391**	**812**	**-**	**-**	**4,203**
Balance - @ WG +5.6% 21/22, +1.85%, +1.18% and 1% thereafter	**0**	**2,540**	**3,028**	**3,372**	**8,940**
2 year budget gap (2021/22 to 2022/23)	**2,540**				

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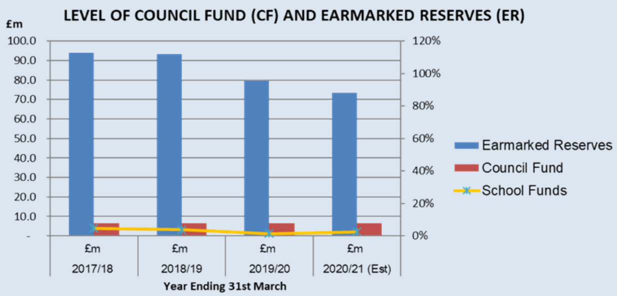
Appendix 5 - Financial Resilience

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts

Level of Council Fund (CF) and Earmarked Reserves (ER)



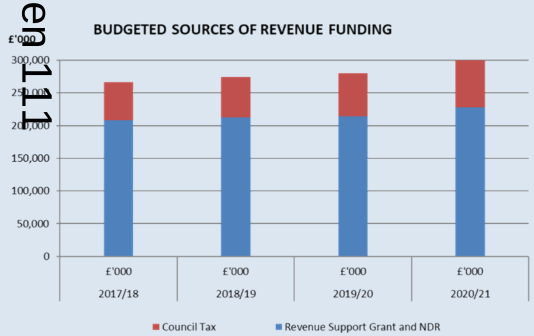
Level of Reserves

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 (Est) £m
Earmarked Reserves	93.9	93.4	79.5	73.4
Council Fund	6.5	6.5	6.5	6.5
School Funds	3.9	3.1	1.1	2.1

Budgeted Sources of Funding

Total Revenue Funding	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Revenue Support Grant and NDR	208,250	212,790	214,343	228,077
Council Tax	58,122	61,806	66,268	72,193

Budgeted Revenue Funding Split



Financial Performance and Ratios

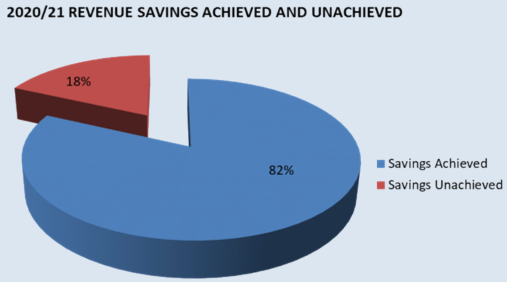
Ratio	Calculation	2016/2017 £'000	2017/2018 £'000	2018/2019 £'000	2019/2020 £'000
Net Worth (Assets - Liabilities)	(Asset- Liabilities)	20,785	20,213	- 48,973	- 7,812
Net Worth (excPension Liab.)	(Asset- Liabilities)	345,530	344,230	351,614	339,338
Working Capital Ratio	(Curr. Assets /Curr. Liabilities)	1.17	1.10	1.08	1.03
Gearing Ratio	(Borrowing / Total Reserves)	49.9%	66.9%	52.8%	51.9%

The figures below shows the 20/21 forecast position for both revenue and capital

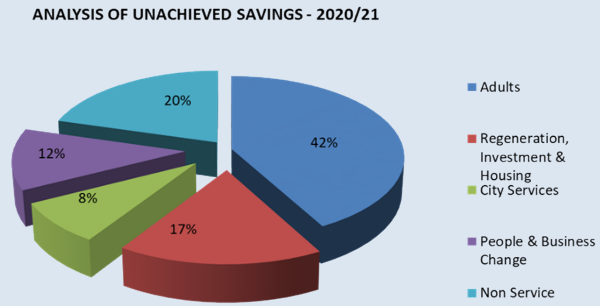
2020/21 Revenue Forecast Position - December

Directorate	Current Budget £'000	Budget Forecast £'000	Variance £'000	Variance %
Children & Young People	25,855	26,595	740	2.9
Adult & Community Services	49,216	47,477	- 1,739	(3.5)
Education	15,364	14,745	- 619	(4.0)
Schools	106,527	105,575	- 952	(0.9)
Regeneration, Investment & Housing	10,043	10,151	108	1.1
City Services	24,624	24,699	75	0.3
Corporate Services	18,954	18,419	(535)	(2.8)
Total Directorates	250,583	247,661	(2,922)	(1.2)
Capital Financing	23,316	23,316	-	-
Contingency/ Provisions	2,932	2,170	(762)	(26.0)
Levies / other	23,738	22,331	(1,407)	(5.9)
Reserves /Transfer	(299)	654	953	(318.7)
Total Budget	300,270	296,132	(4,138)	(1.4)
Additional funding - CT surplus	-	800	800	-
Projected Over/ (Under) spend	300,270	296,932	(3,338)	(1.1)

Revenue Savings Achieved and Unachieved (December 2020/21)



Analysis of Unachieved Savings



2020/21 Capital Forecast Position - December

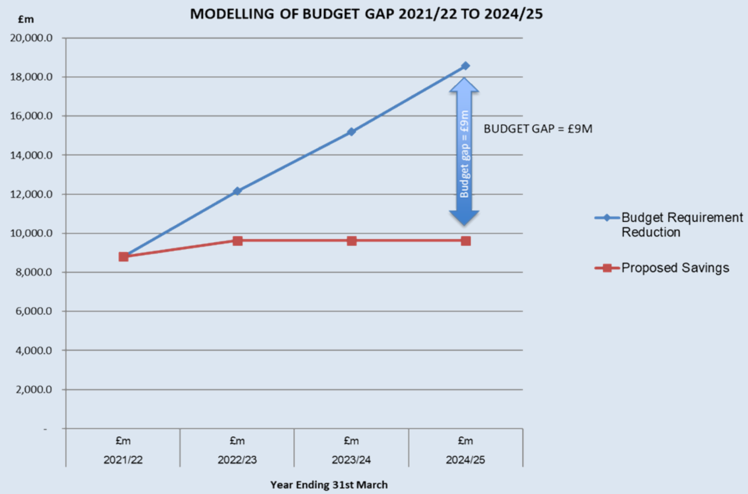
Directorate	Final Budget £'000	Budget Forecast £'000	Variance Slippage £'000	riance (Under Overspend £'000
Education	8,271	8,223	(15)	(33)
Regeneration, Investment & Housing	10,318	10,129	(189)	-
People & Business Change	636	636	-	-
Adult & Community Services	250	249	-	(1)
Children & Young People Services	1,056	1,056	-	-
City Services	11,641	11,210	(144)	(287)
Total Budget	32,172	31,503	(348)	(321)

The tables below show the Medium Term Financial Plan (MTFP) and the risks facing the Council.

MTFP Scenario

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Financial Pressures	19,071	10,053	8,284	8,323	45,731
Funding Uplift	(13,219)	(4,297)	(2,755)	(2,350)	(22,621)
Budget Requirement Reduction	5,852	5,756	5,529	5,973	23,110
Increase in Ctax/ tax base	(2,461)	(2,404)	(2,501)	(2,601)	(9,967)
Savings	(3,391)	(812)	0	0	(4,203)
Budget Gap	**0**	**2,540**	**3,028**	**3,372**	**8,940**

Modelling of Budget Gap 2021/22 to 2024/25



Capital Expenditure & Need to borrow

Capital Expenditure	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total capital expenditure	32.7	60.7	50.9	17.9
Capital Financing Requirement				
Investments or (new borrowing)	- 0.4	- 27.3	- 43.7	- 55.0
CFR	281.9	295.4	295.4	319.8

APPENDIX 5a - Projected Earmarked Reserves

Reserve	Balance at 31-Mar-20	Balance at 31-Mar-21	Balance at 31-Mar-22	Balance at 31-Mar-23	Balance at 31-Mar-24
	£'000	£'000	£'000	£'000	£'000
Council Fund:	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)
Balances held by schools for future use	(1,113)	(2,066)	(2,066)	(2,066)	(2,066)
Earmarked Reserves:					
Music Service	(127)	(127)	(127)	(127)	(127)
Pay Reserve	(1,418)	(1,418)	(1,418)	(1,418)	(1,418)
Insurance Reserve	(664)	(664)	(234)	196	626
MMI Insurance Reserve	(602)	(602)	(602)	(602)	(602)
Health & Safety	(16)	(16)	(16)	(16)	(16)
Education Achievement Service	(92)	(92)	(92)	(92)	(92)
Schools Redundancies	(725)	(516)	(110)	296	701
General Investment Risk Reserve	(658)	(658)	(658)	(658)	(658)
European Funding I2A & CFW	(394)	(394)	(394)	(394)	(394)
Metro Bus	(9)	-	-	-	-
GEMS Redundancies	(78)	(78)	(78)	(78)	(78)
SUB TOTAL - RISK RESERVES	**(4,783)**	**(4,565)**	**(3,729)**	**(2,893)**	**(2,058)**
Capital Expenditure	(5,344)	(5,269)	(5,269)	(5,269)	(5,269)
Invest to Save	(9,938)	(8,180)	(4,672)	(4,672)	(4,672)
Super Connected Cities	(426)	(298)	(170)	(42)	86
Landfill (fines reserve)	(332)	(332)	(307)	(307)	(307)
School Reserve Other	(182)	-	-	-	-
School Works	(452)	(452)	(452)	(452)	(452)
Investment Reserve	(342)	(324)	-	-	-
Usable Capital Receipts	(8,259)	(6,139)	(5,691)	(5,103)	(5,103)
Streetscene Manager Support	(117)	-	-	-	-
SUB TOTAL - ENABLING RESERVES	**(25,391)**	**(20,993)**	**(16,560)**	**(15,844)**	**(15,716)**
Municipal Elections	(130)	(166)	(168)	(206)	-
Local Development Plan	(625)	(640)	(498)	(356)	(142)
Strategic Development Plan	-	(55)	(55)	(55)	(55)
Business Support Reserve	-	(53)	(53)	(53)	(53)
Glan Usk PFI	(1,607)	(1,603)	(1,639)	(1,649)	(1,633)
Southern Distributor Road PFI	(40,691)	(40,364)	(39,959)	(39,417)	(38,741)
Loan modification technical reserve (IFRS 9)	(1,085)	(910)	(835)	(755)	(665)
Building Control	(104)	(124)	(124)	(124)	(124)
SUB TOTAL - SMOOTHING RESERVES	**(44,242)**	**(43,916)**	**(43,332)**	**(42,616)**	**(41,414)**
Works of art	(21)	(21)	(21)	(21)	(21)
Theatre & Arts Centre	(232)	(232)	(232)	(232)	(232)
Cymorth Income	(25)	(25)	(17)	(8)	(0)

Reserve	Balance at 31-Mar-20	Balance at 31-Mar-21	Balance at 31-Mar-22	Balance at 31-Mar-23	Balance at 31-Mar-24
	£'000	£'000	£'000	£'000	£'000
Blaen Y Pant	(18)	(10)	(10)	(10)	(10)
Homelessness Prevention	(38)	(147)	(121)	(121)	(121)
Environmental Health - Improve Air Quality	(49)	(49)	-	-	-
Refurbishment of a Children / Older People Homes	(41)	(21)	(21)	(21)	(21)
Apprenticeship Scheme	(29)	(29)	(21)	(21)	(21)
City Economic Development Reserve	(90)	(90)	(90)	(90)	(90)
Welsh Language Standards	(169)	(169)	(89)	(89)	(89)
Port Health	(16)	(16)	(16)	(16)	(16)
CRM	(244)	-	-	-	-
Financial System Upgrade	(400)	-	-	-	-
Events	(216)	(216)	(216)	(216)	(216)
MTFP Reserve	(2,037)	(2,037)	(2,037)	(2,037)	(2,037)
Voluntary Sector Grants	(49)	(37)	0	0	0
Bus Wifi	(17)	-	-	-	-
Bus Subsidy	(15)	(11)	-	-	-
Feasibility Reserve	(117)	(117)	(117)	(117)	(117)
IT Development	(53)	-	-	-	-
Leisure Delivery Plan	(103)	(103)	(103)	(103)	(103)
Chartist Tow er	(256)	-	-	-	-
Joint Committee City Deal Reserve	(626)	(626)	(626)	(626)	(626)
NEW - Civil Parking Enforcement	(175)	-	-	-	-
SUB TOTAL - OTHER RESERVES	**(5,036)**	**(3,955)**	**(3,736)**	**(3,728)**	**(3,720)**
RESERVES TOTAL	**(87,065)**	**(81,995)**	**(75,923)**	**(73,646)**	**(71,473)**

Mae'r dudalen hon yn wag yn

Newport City Council

Reserves Policy

1.0 Introduction

1.1 This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council, the purposes for which they will be maintained and used in addition to their reporting requirements.

1.2 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 requires authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.3 There are also a range of safeguards in place that help prevent local authorities over committing themselves financially. These include:

- The balanced budget requirement;
- The statutory duty of the Head of Finance (S151 Officer) to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement (Section 25 of the Local Government Act 2003);
- The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972;
- The requirements of the Prudential Code and the Treasury Management in Public Services Code of Practice.

1.4 The above requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance to report to all the authority's councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have resources to meet its expenditure in a particular financial year.

1.5 This policy is based on a requirement that all reserves are corporate in nature and that individual departmental reserves are only to be permitted if agreed by Cabinet after taking the advice of the S151 Officer.

2.0 Definitions

2.1 Reserves are sums of money held by the Council to meet future expenditure (whilst managing risk) and should be held for a specific purpose.

3.0 Types of Reserve

3.1 As an integral part of the annual budget setting process, the Cabinet (via the Head of Finance) considers the establishment and maintenance of reserves. These will be held for three main purposes:

- A **working balance** to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;

- A **contingency** to cushion the impact of unexpected events or emergencies;

- A means of building up funds - **earmarked reserves**, to meet known or predicted requirements. The authority categorises earmarked reserves into three categories: risk, enabling or smoothing to reflect the general purpose of each reserve. A detailed analysis of the authority's reserves can be found in Appendix 1.

The following table identifies the high-level categories of earmarked reserves held by the Council:

Category of Earmarked Reserve	**Rationale**
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future years, it is prudent to set aside resources in advance, e.g. Local Development Plan, Glan Usk Private Finance Initiative (PFI).
Insurance reserves	Self-insurance is a mechanism used by most local authorities. In the absence of any statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the definition of a provision under the requirements of the Code's adoption of IAS 37 Provisions, Contingent Assets and Liabilities.
Reserves of trading and business units	Surpluses arising from in-house trading may be retained to cover potential losses or re-organisation costs in future years, or to finance capital expenditure, e.g. Gwent Music service.

Reserves retained for service departmental use	Internal protocols permit year-end underspending at departmental level to be carried forward, where appropriate e.g. homelessness prevention.
Reserves for unspent revenue grants	Where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place, surplus funds can be held in earmarked reserves for future use.
Schools balances	These are unspent balances of budgets delegated to individual schools.

3.2 Paragraph 3.1 above articulates the categories of ‘useable reserves’ held by the Council, i.e. those reserves that are ‘cash-backed’. On the technical accounting side, the Council also holds ‘unusable reserves’. These reserves are not cash backed and arise out of the interaction of legislation and proper accounting process, either to:

a) Store revaluation gains (e.g. on property revaluations); or

b) As adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements (e.g. pension reserve).

The remainder of this report will focus on the Council’s useable, and therefore, cash-backed reserves.

4.0 General Fund Reserves

4.1 In assessing the appropriate level of reserves the Council will ensure that the general reserves are not only adequate but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.

4.2 The risks faced by a local authority will, in many cases, be due to the specific local context and will need to be kept under review. In assessing its financial risk the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on the factors that should be considered:

- Budget assumption for inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand led pressures;
- The authorities track record in budget and financial management;

- Treatment of planned efficiencies/savings;
- The financial risk inherent in any significant new funding partnerships, major outsourcing and capital developments;
- The likely level of Government support to deal with major unforeseen events;
- The adequacy of the authority's insurance arrangements;
- The authority's virement and end of year procedures in relation to budget under and over spends;
- The general financial climate and future funding assumptions.

4.3 The risk assessment to be carried out will be based on the guidance provided by CIPFA above and any further issues, which the Head of Finance feels are relevant. This will be reviewed annually.

4.4 The appropriate level of General Fund Reserves will be determined annually as part of the budget setting process and medium term financial strategy plus at other periodic intervals in-year and will be subject to approval by the Cabinet and full Council.

4.5 The Head of Finance, within the Councils Medium Term Financial Plan and financial strategy will set out the level of planned reserve balances, including financial arrangements for any replenishing of reserves. It will also confirm acceptable thresholds above and below the balance where appropriate / relevant. If the balance falls outside of these thresholds, a plan will be agreed by Cabinet to restore balances to the appropriate level.

5.0 Earmarked and Specific Reserves

5.1 These are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. By nature, these reserve balances do not have minimum and maximum thresholds. Creation of such reserves must be approved by the Head of Finance.

5.2 Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside. If circumstances arise to which the reserve is no longer required for its original purpose they will transfer to other earmarked reserves or the General Fund reserve, as agreed and approved by Cabinet.

5.3 The authority follows best practice in that for each earmarked reserve, a clear protocol exists setting out:

- The reason for/ purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserves management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

5.4 **Setting up of reserves**

5.4.1 Where officers would like to request potential transfers to/ from existing earmarked reserves or the creation of a new reserve, discussions are to be had with the Assistant Head of Finance (AHoF) and the service area Senior Finance Business Partner (SFBP) to determine whether the assumption needs to be included within the in-year financial monitoring forecasts. Any decisions on whether these requests are authorised or not will, in the majority of cases, be made at year-end when the overall Council position is known and must be approved by Cabinet.

5.4.2 Reserve request forms will be circulated as part of the year-end closing process.

5.5 **Use of reserves**

5.5.1 Should there be an unplanned need to utilise general reserves there must be a clear plan setting out the intended route to replenish the reserves to its minimum balance recommended. This must clearly state how the shortfall will be met and by when.

5.5.2 Where there is a planned use of reserves a reserve request form must be submitted to the Head of Finance to be considered at year-end as set out in 5.4 above.

6.0 Ring-fenced Reserves

6.1 Schools Reserves

6.1.1 Schools are able to carry forward surplus and deficit balances from one year to the next and utilise these balances for managing changes in pupil numbers and funding, or the funding of projects and future liabilities. The balances are held by individual schools and are not for general Council use. Guidance on the level of balances held is documented within section D of Newport City Council Scheme for the Financing of Schools.

7.0 The Reporting Framework

7.1 The balances and movement of all reserves is required to be reported within the authorities Annual Statement of Accounts.

7.2 The balance held and projected movement of useable reserves will be reported monthly/ quarterly as part of the budget monitoring report to the Senior Leadership Team (SLT)/ Cabinet. This includes the level of reserves held against each category of reserve.

7.3 The S151 Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

7.4 The level and utilisation of reserves will be determined formally by the Cabinet, informed by the advice and judgement of the S151 Officer. To enable the Cabinet to reach its decision, the S151 Officer should report the factors that influenced his or her judgement, and ensure that the advice given is recorded formally. Where this advice is not accepted this should be reported formally in the minutes of the Cabinet meeting.

7.5 It is recommended that:

- The budget report to the Cabinet should include a statement showing the estimated opening general reserve fund balance for the year ahead, the addition to/ withdrawal from balances, and the estimated end of year balance. Reference should be made as to the extent to which such reserves are to be used to finance recurring expenditure;
- This should be accompanied by a statement from the S151 Officer on the adequacy of the general reserves and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy;
- A statement reporting on the annual review of earmarked reserves (including schools' reserves) should also be made at the same time to the Council. The review itself should be undertaken as part of the budget preparation process. The statement should list the various earmarked reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/ withdrawals and the estimated closing balances.

APPENDIX 1 – Analysis of Reserves

Reserve	**Purpose/ Rationale for Reserve**
Council Fund	General Reserve
Schools Reserve	Balances held by schools for their future use
Earmarked Reserves:	
Risk Reserves:	
Music Service	This is a general reserve retained by the Gwent wide Music Service and a traded service and belongs to all trading partners. Newport holds the reserve as the hosting authority. The reserve is held as a balance to cater for years where trading income is below expenditure and/or one off cost's for re-organisation are incurred.
Pay Reserve	To cover the risk of pay awards being higher than budgeted.
Insurance Reserve	To assist in management of the Council's insurance risks and provide funds, over and above existing insurance provisions for excessive levels of claims/costs in any year.
MMI Insurance Reserve	To assist in future funding requirements of MMI in line with the agreed 'Scheme of Arrangement'.
Health & Safety	Responding to inspections and reports from Health & Safety Executive.
Education Achievement Service	Reserve held against Newport's share of any redundancy costs that may arise from a restructure of the service as a result of funding reductions from grant allocations. Newport is a partner in the service and has to take a share of any costs that may arise.
Schools Redundancies	Reserve has been created from contributions from Schools to cater for redundancy costs that arise through schools that face financial issues. The value has been negotiated with the schools as a

	contribution towards the costs that have to be met by the LA.
General Investment Risk Reserve	To cover the risk of the commercial estate and for the accounting requirement of this area.
European Funding I2A & CFW	To cover one off costs associated with the project. Newport is a partner with other Gwent Councils and so has to take a share of any costs that arise.
GEMS Redundancies	Reserve created from service income levels over and above grant income to cater for anticipated redundancy costs anticipated from restructuring to cater for different language sets, and potential reduction in grant income.
Enabling Reserves:	
Capital Expenditure	To fund capital investment.
Invest to Save	To enable funding of specific change/efficiency projects which achieve savings to the revenue budget.
Super Connected Cities	Funding for Community Safety Network over a seven-year period including project costs.
Landfill (Fines reserve)	To cover landfill fines risk associated with achieving prescribed recycling targets.
School Works	Reserve specifically for identified school works - funded by school's themselves. Reserve allows schools to build up specific scheme reserves over a number of years, where required.
Usable Capital Receipts	Holds proceeds from the sale of property, plant and equipment, used to finance new capital expenditure. Currently reserved for Council contribution to 21C Schools programme.

Smoothing Reserves:	
Municipal Elections	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount.
Local Development Plan	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount. Related to production and inspection of the LDP and SPG's
Glan Usk PFI	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
Southern Distributor Road PFI	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
Loan modification technical reserve (IFRS 9)	Technical reserve
Building Control	Funding to smooth losses and profits over the period to meet building control requirements
Other Reserves:	
Works of art	To fund purchases for the collections.
Theatre & Arts Centre	Council agreed reserve as condition of Art's Council funding of the Riverfront Theatre.
Cymorth Income	To fund the provision of Domestic Abuse Services.
Homelessness Prevention	A minimum amount needs to be spent on homelessness prevention on an on-going basis. The revenue budget is continually under pressure of overspending due to the obligation placed on the Authority to house clients.

Environmental Health - Improve Air Quality	To undertake highways work in a specific area to improve air quality and reduce noise pollution.
Refurbishment of a Children / Older People Homes	There is a need to refurbish residential homes on a regular basis to attract Service Users and more importantly, to ensure they meet inspection criteria.
Apprenticeship Scheme	To fund costs of NCC apprentices.
City Economic Development Reserve	To support City economic development.
Welsh Language Standards	To fund specific one off costs for ensuring NCC compliances with Welsh language standards.
Port Health	Port Health Authority reserve.
CRM	Implementation of CRM project costs.
Financial System Upgrade	Implementation costs of an upgrade/ new financial system to secure future stability of the financial platform.
Events	To fund events throughout the City.
MTFP Reserve	Allocate to existing MTFP reserve to support achievement of the corporate plan and support future budgetary challenge.
Voluntary Sector Grants	Funding for delayed implementation of previous proposal.
Bus Subsidy	Funding for delayed implementation of previous proposal.
Feasibility Reserve	To support feasibility work for capital projects.

Leisure delivery plan	To support the Leisure Masterplan.
Joint Committee City Deal reserve	To fund contribution to the City Deal project.

Invest to Save Fund

General guidance for applicants

Background

The Invest to Save fund has been operating since 2010 and has supported a wide range of projects across the council. The types of project, which have been supported, fall into general categories, which include:

- Information Technology (IT)
- New ways of working
- Business transformation.

Proposals need not fall in to any of these categories so provided ideas can satisfy the following criteria they will be considered.

Criteria

Invest to Save funding is **one off** investment aimed at supporting projects, which satisfy **all** of the following criteria:

- can demonstrate that they will generate cash releasing savings/ additional income;
- will maintain or improve services or the way in which the organisation operates and;
- satisfy a payback period of 3 years, i.e. the investment should recover its initial outlay within a 3-year timeframe.

In principle, the concept of cash releasing efficiencies appears straightforward but it can often be confused with efficiencies and increasing operational capacity. A successful outcome will involve not only being able to demonstrate an improved service but also reduced costs. Ideally, a budget manager will be able to identify a budget line within the organisation, which shows reduced expenditure directly as a result of the changes implemented by the project.

The decision point should also be identified as part of the approval process. This could include (i) budget process - approval of one off investments required to achieve recurring saving or (ii) specific project requiring approval outside of the budget process – I2S application required.

Reporting

In year forecasts, as well as projected reserves, are reported to Cabinet on a quarterly basis and detailed transfers (into)/ from reserves are included within the year-end outturn report for Cabinets consideration and approval.

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