CAPITAL STRATEGY 2019-20

A. PURPOSE AND AIMS

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017.

This Code dictates that "authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes."

The Capital Strategy is a new requirement from April 2019 to show how this Council makes capital expenditure and investment decisions in line with service objectives and properly takes account of:

- Stewardship / good professional practice
- Value for money
- Prudence / risks considered
- Sustainability
- Affordability

This Capital Strategy sets out a framework for the self-management of capital finance and examines the following areas:

- Capital expenditure and investment plans
- Treasury Management
- Prudential Indicators
- Commercial activity
- Knowledge and skills

The above considerations help to support local strategic planning, local asset management planning and effective option appraisal.

Through this Capital Strategy elected members will see how future capital expenditure, capital financing and treasury management activities will contribute to the provision of services, together with a summary of how associated risks are managed and the implications for future financial sustainability. It will highlight the governance framework required to ensure the Strategy is delivered.

B. ECONOMIC BACKGROUND

It is important to set out the external environment in which Carmarthenshire County Council is currently operating. One of the key factors that impact directly on the capital programme is the reduced revenue funding for local government. Due to the pressure on public finances, the Welsh Government's budget is substantially lower than it was in 2010. The Welsh Government's budget in 2019-20 will be 5% lower in real terms than in 2010-11. This is the equivalent of £800m less to spend on public services in Wales.

The Welsh Government has indicated that "with the prospect of a UK Government Spending Review in 2019 and many unanswered questions surrounding the future of the UK outside the EU, including what the final Brexit deal will look like, our ability to plan beyond the short-term is restricted." (Welsh Government Draft Budget 2019-20 Outline Proposals).
Despite these uncertainties Carmarthenshire will continue to identify, plan, fund and implement long term in non-current assets in order to help the Council deliver departmental strategies and wider Council plans.

C. CARMARTHENSHIRE'S STRATEGIC RESPONSE

In considering capital implications, the Council takes into consideration the requirements of the Wellbeing of Future Generations (Wales) Act 2015. The Act requires that we must carry out sustainable development, improving the economic, social environmental and cultural well-being of Wales. The Act requires us to look at the long term, prevention of recurring problems, integration of approach, collaboration with others and involving stakeholders. Carmarthenshire's Well Being objectives have a direct impact on the Council Capital Strategy. Some of these include:

- Start Well - help to give every child the best start in life and improve their early life experience
- Live Well - increase the availability of rented and affordable homes
- Age Well - support the growing numbers of older people to maintain dignity and independence in their later years
- In a Healthy and Safe Environment - improve the highway and transport infrastructure and connectivity

This Capital Strategy supports Carmarthenshire's Well-being Objectives.

D. WHAT IS CAPITAL EXPENDITURE?

Capital expenditure is expenditure on non-current assets such as Property, Plant and Equipment, Investment Properties and Heritage Assets. This would include the acquisition or construction of new assets, together with any subsequent expenditure on major upgrades or development work to those assets.
Expenditure which adds to and does not merely maintain the value of an existing asset, should be capitalised, provided that it yields benefits to the authority and the services it provides are for a period of more than one year.

Capital expenditure is defined by legislation as:

- the acquisition, reclamation, enhancement or laying out of land
- the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- the acquisition, installation or replacement of moveable or immovable plant,
- machinery, apparatus, vehicles and vessels.

An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

E. CARMARTHENSHIRE'S APPROACH TO CAPITAL INVESTMENT

A 'Managing Capital' procedure document has been adopted as a policy for the Authority. Within this document Carmarthenshire's approach to capital investment is conveyed. A sub-strategy that feeds into the Authority's overall Corporate Strategy is the Capital Programme. The Programme is closely linked to various other sub-strategies such as the Corporate Asset Management Plan, Local Transport Plan, Digital Transformation Strategy and the Service Departments' Business Plans. The 'Managing Capital' document explains that the aim is to deliver projects and outputs that meet the set objectives. The Capital Programme is prepared and approved on a five-year forward plan basis in order to:

- Provide a detailed implementation plan to enable the high level objectives to
- be realised
- Provide a financial commitment to allow sufficient time to adequately plan,
- design and implement future schemes and projects
- Provide an overview of the likely future commitments arising from current Schemes.

Carmarthenshire's Capital Strategy defines and outlines its approach to capital investment and is fundamental to the Council's financial planning processes. It aims to ensure that:

- Capital expenditure contributes to the achievement of the Council's strategic plan
- An affordable and sustainable capital programme is delivered
- Use of resources and value for money is maximised
- A clear framework for making capital expenditure decisions is provided
- A corporate approach to generating capital resources is established
- Access to sufficient long term assets to provide services are acquired and retained
- Invest to Save initiatives to make efficiencies within the Council's revenue budget are encouraged
- An appraisal and prioritisation process for new schemes is robust.

F. GOVERNANCE FRAMEWORK

It is important given the risks surrounding Capital Projects that the appropriate Governance framework is in place:

Capital Programme Approvals

All capital expenditure must be carried out in accordance with the financial regulations. The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards. The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme. All schemes are formally approved into the capital programme by following a process as set out in the financial regulations. Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations. Each scheme must be under the control of a responsible person/project manager.

The Departmental Project Working Group (DPWG) monitors and reports on departmental capital programmes, in line with parameters set by the Strategic Assets Steering Group (SASG). The working groups will identify, monitor, develop and manage the Directorate's medium and long term capital programme. The groups will champion best practice and help ensure compliance with the Council's Project Management Procedures and Policies, ensuring the Grants Compliance Project Manual is followed, the Council Managing Capital document is adhered to and there is liaison with the Council's SASG.

SASG develops and maintains on a rolling basis a longer-term 'vision' of the capital investment requirements of the authority, together with the likely funding. It co-ordinates the development of the Corporate Asset Management Plan and other asset management plans and oversees the Capital Maintenance Strategy. It also provides recommendations and options for future capital program priorities.

SASG will carry out a priority assessment of all schemes included in the five year capital programme, balanced against an evaluation of risk and its integration into Council objectives. Results are fed to the Corporate Management Team, Executive Board and County Council, following full examination with Scrutiny Committees and other relevant stakeholders.

Corporate Management Team (CMT)

Recommend to Executive Board a prioritised 5-year Capital Programme.

Executive Board

To endorse the 5-year Capital Programme and it's funding, and make recommendation for approval to County Council. To monitor the Capital Programme throughout the year.

Scrutiny Committees

Receive and scrutinise the quarterly capital expenditure/progress reports and to make recommendations to Executive Board.

County Council

Approve the five-year Capital Programme and its funding.

Project Managers

Authorise expenditure against budgets, monitor expenditure and income, reporting to Responsible Officers on performance against budgets.

Director of Corporate Services (Section 151 Officer)

Lays out the funding consequences of the five-year programme and the effect on the Prudential Indicators.

Head of Financial Services

Collates, estimates and reviews methods of financing the capital programme. Monitors the Council's Capital Programme during the year based on expenditure reports provided by the Responsible Officer or Budget Managers via DPWG. Advises Executive Board on potential overspends, under spends or slippages on individual schemes.

Departmental Management Team (DMT)

Considers departmental Business Plans put forward by DPWG and makes recommendations to SASG.

G. FUNDING STREAMS FOR THE CAPITAL PROGRAMME

This Strategy is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the Medium Term Financial Plan. Whilst at the same time ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcomes of the strategy.
The main sources of capital funding are:

- Capital receipts – sale proceeds from the disposal of land and buildings which are restricted in their use by statute. They can be used to fund new capital expenditure or set aside to finance historic capital expenditure
- Government grants – the largest form of capital funding come from the Welsh Government
- Sums set aside from revenue – the Authority can use revenue resources / reserves to fund capital projects
- Direct revenue contributions – resources provided by the Authority's revenue budget to finance the cost of capital projects

- Prudential borrowing – The Local Government Act 2003 sets the legal framework within which local government may undertake capital expenditure. The Act allows local authorities to raise additional finance (unsupported borrowing) for capital expenditure over and above that already provided by the Welsh Government. It is essential that an assessment is made as to whether the Authority can afford to service the debt within our own resource. This type of borrowing is subject to the requirements of the Prudential Code for Capital Expenditure.

H. OVERVIEW OF CAPITAL PROGRAMME (excluding HRA)

CAPITAL SPENDING BY DEPARTMENT:-	**Budget 2019/20** (£000s)	**Budget 2020/21** (£000s)	**Budget 2021/22** (£000s)
Communities	9,014	2,800	2,550
Environment	11,890	10,456	13,865
Education & Children	36,381	27,820	16,518
Chief Executive	1,060	250	900
Regeneration	15,133	4,500	4,500
City Deal Projects	31,230	32,600	1,558
TOTAL	**104,708**	**78,426**	**39,891**

CAPITAL FUNDING FROM:	**Budget 2019/20** (£000s)	**Budget 2020/21** (£000s)	**Budget 2021/22** (£000s)
External Funding	25,599	28,960	17,525
MEP Balances	0	5,750	4,000
Reserves	23,624	8,393	48
General Capital Grants	8,851	4,889	3,570
Revenue Contributions	600	600	600
Borrowing	36,404	28,334	12,648
Capital Receipts	9,630	1,500	1,500
TOTAL	**104,708**	**76,426**	**39,891**

I. DESCRIPTION OF MAJOR SCHEMES

Executive Board have set out their aspirations for Carmarthenshire in the document "Moving forward in Carmarthenshire: the next 5 years". The capital programme has been developed and approved to support this vision for the future to become a reality.

Modernising Education

A modernising Education Programme which has seen over £200million invested to date, in the building of new schools and upgrading others, with a further commitment to fund future investments of £129million, is the flagship policy.

Health & Wellbeing

Improving the health and wellbeing of residents is a key aspiration and to this end we are committed to delivering:

- A new leisure centre for Llanelli as part of the Swansea Bay City Deal wellness village
- Developing Carmarthenshire as a national hub for cycling. Investments in the Towy Valley path, which will see the redevelopment of the old railway line from Carmarthen to Llandeilo as a walking and cycling resource, and further developments at the new closed road circuit in Pembrey, will complement the existing facilities at the Brechfa Forest and the velodrome in Carmarthen.

Agile Working

The implementation of a new agile working approach across the authority, in order to make the best use of resources, will enable redundant assets to be sold, raising income from capital receipts to fund strategic capital projects.

Cultural Heritage

A transformation plan is in place for the museum provision. Major refurbishment at the county museum at Abergwili, Parc Howard, Kidwelly Industrial Museum, and a new Museum of Speed at Pendine, together with a new county archive and storage facility at "Y Stordy" will ensure that our valuable culture learning and tourism resource is improved for residents and visitors and maintained for future generations.

Highways

The economic prosperity of our towns is enhanced by improvements to road infrastructure.
The new Carmarthen western link road will provide much needed improvements to traffic flows, access to the new S4C headquarters at "Yr Egin" and development opportunities for new housing and retail.
The Cross Hands economic distributor road coupled with associated developments at the Cross Hands strategic employment site will boost the economy in the Gwendraeth Valley.
The development of the Ammanford distributor road will improve traffic flows and enhance retail investment opportunities.

Digital Transformation

A commitment to continue investment in ICT coupled with a digital transformation programme aims to ensure that Carmarthenshire services are fit for purpose in the digital age.

Housing

The Carmarthenshire Home Standards Plus (CHS+) Business Plan 2019-2022 details the Council's priorities, plans and actions for council housing in Carmarthenshire for the future years. The plan covers all housing services and assets in the Housing Revenue Account (HRA). It sets out the objectives of the CHS+ and what this means for tenants and leaseholders across a range of housing activities. The CHS+ is 100% compliant with the Welsh Government's own standard of social housing quality, the 'Welsh Housing Quality Standard' (WHQS). Against a background of the borrowing cap being lifted by central government for local authority HRA borrowing, Carmarthenshire is committed to deliver 1,000 more affordable homes by 2021, and is more than half way through this objective. The Council is developing a 10 year Housing Transformation Master Plan which will "play a pivotal role in not only developing additional affordable homes but will allow us to significantly contribute to key Council developments and regeneration initiatives to grow the economy across the County."

In addition the Council plans to continue to invest over £45m in maintaining tenants' homes over the next three years.

A local housing company, Cartrefi Croeso, was recently established with the aim of realising new opportunities, to offer families an alternative to social housing by delivering a mix of new affordable homes for sale or rent, and to take advantage of the commercial skills of local organisations.

The Council recognises the importance of strategic asset management in providing the foundation for its investment plans so within the CHS+ Business Plan has highlighted two key themes for future investment. These are 'investing in our homes and the environment' and 'providing more homes.

J. HRA CAPITAL SPENDING AND FUNDING

CAPITAL SPENDING TO:-	Budget 2019/20 (£000s)	Budget 2020/21 (£000s)	Budget 2021/22 (£000s)
Maintain the standard	10,638	8,725	9,399
Support Tenant and Residents	4,002	5,523	4,809
Provide more affordable homes	15,452	15,952	13,000
Support the delivery of CHS+	786	558	562
TOTAL	**30,878**	**30,758**	**27,770**

CAPITAL FUNDING FROM:	Budget 2019/20 (£000s)	Budget 2020/21 (£000s)	Budget 2021/22 (£000s)
Welsh Government Grant-MRA	6,190	6,190	6,190
Housing Finance Grant	3,452	3,452	0
External Borrowing	21,236	21,116	21,580
TOTAL	**30,878**	**30,758**	**27,770**

K. TREASURY MANAGEMENT

The Council produces a Treasury Management Policy and Strategy which is approved by full Council annually as part of the budget setting process. There are close links between the Capital Strategy and Treasury Management Strategy.

The capital programme determines the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

L. PRUDENTIAL INDICATORS

Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities (revised in 2017), local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enables the authority to assess affordability and prudence.

These indicators are included in the annual Treasury Management Policy and Strategy

M. COMMERCIAL ACTIVITY

Our commercial portfolio consists of a variety of asset types, namely: Retail Units, Industrial Estates, Farms, Ground leases and Provision & livestock Markets. The portfolio generates revenue through rental receipts with opportunities to enhance income through rent reviews and renewals depending on the terms of each agreement. The Council has 20 Industrial estates located around the County with a total of around 400 units, together with 26 farms, 2 Provisions markets and 3 Livestock Markets. There are 104 Ground leases and Retail units (other than those forming part of the provisions markets).

In addition to generating a commercial return the portfolios meet corporate objectives of encouraging and supporting business and employment development, rural initiatives and town centre regeneration. In many instances the support of these broader aims is as important and income generation, and it's the Council's role to balance commercial returns with economic development objectives and corporate priorities.

Each portfolio will be managed uniquely taking into account its particular objectives, however, the underlying principle is that the Council makes the best use of its resources by increasing returns wherever possible, taking on board wider corporate priorities.

N. RISK APPETITE

Risk appetite can be thought of as the amount of risk an organisation is willing to accept, tolerate or be exposed to, in pursuit of its strategic and organisational objectives. The Council recognises that its appetite for different types of risks will vary and needs to reflect both its capability and its ability to exercise control.
By virtue of its statutory responsibilities for public services and associated functions the Council often has limited choice in whether or not to accept or tolerate risk. Clearly there are some types of risks where the Council's tolerance will be extremely low, or risk averse, for example, those that could:

- Endanger the safety of service users, employees, members or the general public
- Damage the Council's reputation or financial standing
- Lead to breaches of laws and/or regulations
- Threaten the future operations of the Council.

In some circumstances, the Council is willing to accept a different level or type of risk in pursuit of its strategic objectives. For example, capital schemes typically invoke risks such as achievement of timescales and financial targets, management of contractors and satisfaction of service requirements.

In other areas, the Council's appetite for risk has evolved in response to the changing and challenging environment in which local government now operates.

For example, in response to reductions in central government funding, the Council has been willing to consider commercial income generating ventures and invest to save proposals in addition to service reductions and efficiencies to secure financial stability.

It is not possible to articulate the Council's appetite for every form of risk it may encounter or to predetermine which risks are acceptable or not acceptable. Instead, this strategy aims to inform and strengthen the decision making process, to ensure that:

- Risks, as well as benefits and opportunities, are always considered, identified and reported
- Risks are assessed and recorded consistently, in accordance with the Council's risk management methodology
- Proposals which are likely to involve higher or more challenging levels of risk, such as creation of new partnerships, investments in major projects, or commercial activities, are subject to a robust and detailed risk appraisal process
- Risks which are likely to impact the achievement of one or more corporate objectives or to carry significant financial implications are escalated to the senior management team and the Executive Board for review and approval.
- Exposure to risks for which the Council's tolerance is low, such as the examples given above, is minimised.

O. <u>KNOWLEDGE AND SKILLS</u>

The Capital Programme and Treasury Management Strategy are managed by a team of professionally qualified accountants with extensive Local Government finance experience between them. They all follow a Continuous Professional Development Plan (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities and views the strategy to be prudent and affordable and fully integrated with the Council's Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

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.

Internal and external training is offered to members on an annual basis 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 project's life cycle.