

MERTHYR TYDFIL COUNTY BOROUGH COUNCIL



Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL
MERTHYR TYDFIL
County Borough Council

MEDIUM TERM FINANCIAL PLAN

2019/20 – 2022/23

March 2019

1.0 Introduction

- 1.1 Local Government is faced with significant demanding future challenges in marrying corporate and service expenditure plans and priorities to scarce available financial resources. This becomes even more critical when acknowledging the Institute for Fiscal Studies projection that the current financial austerity measures could continue into the next decade.
- 1.2 It is imperative that Merthyr Tydfil County Borough Council (MTCBC) recognizes these challenges and aligns budgets and spending plans to corporate priorities through the implementation of a robust rolling programme Medium Term Financial Plan (MTFP) continuously updated to take into account changing circumstances, future demands, priorities and initiatives. Consequently, regular reporting to Corporate Management Team, Cabinet, Audit Committee and Scrutiny Committees is both desirable and essential.
- 1.3 A meaningful, continuously updated MTFP has the following advantages:
- Informs the budget process
 - Allows timely recognition of future budget pressures, minimising unforeseen demands
 - Allows budget decisions to be based on priorities rather than the requirement to arbitrarily reduce costs
 - Supports earlier budget setting since financial decisions are being recommended earlier in the year
 - Supports integration of Council plans and policies
- 1.4 To ensure ownership of the MTFP by all stakeholders, for example members, senior management, service managers and finance professionals', the MTFP must be a meaningful tool in informing effective decision making and financial planning.
- 1.5 A meaningful MTFP should be fully integrated to aid financial planning and corporate decision making. The following are considered within the Council's MTFP for 2019/20 to 2022/23:
- Section 2 – Corporate Wellbeing Objectives
 - Section 3 – Asset Management Plan
 - Section 4 – Strategic Workforce Plan
 - Section 5 – Financial Context
 - Section 6 – Revenue Budget
 - Section 7 – Capital Programme and Capital Strategy
 - Section 8 – Reserves Strategy
 - Section 9 – Treasury Management

2.0 Corporate Wellbeing Objectives

2.1 Underpinning all the considerations within Sections 3 to 9 is the requirement for the MTFP to be determined by corporate spending priorities having regard to the Wellbeing of Future Generations (Wales) Act 2015. The Act embraces seven Wellbeing Goals:

1. A prosperous Wales
2. A resilient Wales
3. A healthier Wales
4. A more equal Wales
5. A Wales of cohesive communities
6. A Wales of vibrant culture and thriving Welsh Language
7. A globally responsible Wales

2.2 The Wellbeing Duty dictates that as a public body Merthyr Tydfil County Borough Council must develop in a way that is sustainable over the long term, to improve the economic, social, environmental and cultural wellbeing of Wales.

2.3 In setting its Wellbeing Objectives the Council must demonstrate how it has applied the sustainable development principles in aligning with the 5 ways of working of:

1. Involvement
2. Collaboration
3. Integration
4. Prevention
5. Long Term

2.4 The Council's initial Wellbeing Objectives approved by Council on 22nd March 2017 were revised at Council of 28th June 2017. Council of 4th April 2018 approved a further revision whereby the previous nine Wellbeing Objectives were reduced to four, being one for each wellbeing theme. These are as follows:

- **Best Start to Life** – children and young people get the best start to life and are equipped with the skills they need to be successful learners and confident individuals
- **Working Life** – people feel supported to develop the skills required to meet the needs of businesses, with a developing, safe infrastructure making Merthyr Tydfil an attractive destination
- **Environmental Wellbeing** – communities protect, enhance and promote our environment and countryside

- **Living Well** – people are empowered to live independently within their communities, where they are safe and enjoy good physical and mental health
- 2.5 Under the Wellbeing of Future Generations (Wales) Act 2015 the Council is required to fulfil its statutory duty and publish a ‘Statement of Wellbeing’ and ‘Focus on the Future Plan’. These documents were approved by the Council of 4th April 2018 with the ‘Statement of Wellbeing’ setting out the Council’s local Wellbeing Objectives for the community over the five year period 2017 to 2022, and the ‘Focus on the Future Plan’ detailing how and what the Council will do to achieve the Wellbeing Objectives.

3.0 Asset Management Plan

- 3.1 The Corporate Asset Management Plan 2014/2019 was approved by Council on 26th March 2014. The Plan recognises that the effective management of property is fundamental to the Council’s ability to deliver on its corporate priorities and on its ability to sustain wider service delivery. An updated Asset Management Plan for the period 2019/2024 is currently being drafted.
- 3.2 The current Plan sets out the vision for asset management where:
- The property portfolio is aligned to corporate priorities and service requirements
 - Appropriate investment is made in capital projects
 - The portfolio is efficiently maintained, is fit for purpose and meets health and safety requirements
- 3.3 The Corporate Asset Management Plan includes appendices in respect of:
- Asset Management work streams
 - Maintenance Strategy
 - Office Accommodation Strategy
 - Energy Policy
 - Community Organisation Rental Policy
- 3.4 The Plan is a live document updated, as necessary, to reflect changes to service delivery, Council structures and legislation.
- 3.5 Fundamental to improving and strengthening links with the Medium Term Financial Plan has been the implementation of the new **Asset Management System**, which ensures that all financial and property management systems are linked to a single, complete and accurate Asset

Register. The Technology Forge (TF), were appointed in September 2011 following a tender exercise to provide a corporate Asset Management Software System. This system provides an integrated Asset Register, which facilitates the production of the Council's Capital Accounts and enables a corporate approach to Asset Management Planning.

- 3.6 The **Workforce Plan** is completed as part of the performance management yearly cycle, focusing on gaps in service delivery where staff numbers and skills are considered inadequate. Accommodation requirements and the potential for mobile or flexible working practices are also explored as part of the workforce planning process. This exercise informs the Medium Term Financial Plan, provides data which informs the **Office Accommodation Strategy** and provides for continuous review of the office accommodation requirements.
- 3.7 The Authority's **Property Review** Officer is tasked with rationalisation of the Property portfolio, re-allocating property to appropriate service areas and identifying potential surplus property thus realising capital receipts.
- 3.8 To enable continued improvements to **energy management and carbon reduction**, the Council has engaged with ReFit Cymru and the Welsh Governments Energy Service to carry out feasibility studies and Investment Grade Proposals, (IGP's), for energy and carbon reductions projects in buildings. We will then seek funding in order for the projects to be completed on the basis that any savings will cover the cost of installation.
- 3.9 The Council has employed an Energy Engineer tasked with identifying and delivering sustainable **energy efficiency** projects and savings and working with ReFit to manage to process.
- 3.10 The Council currently targets £600,000 of new **Capital Receipts** per annum to support Capital Programme ambitions. A Corporate Maintenance Budget allocation of £300,000 is included in the Capital Programme for essential maintenance work and priorities are managed in accordance with the Maintenance Strategy requirements. An on-going programme of **condition surveys** is underway, which is facilitated by hand held technology to enable remote access to the Asset Management System.
- 3.11 The **Highway Asset Management Plan** (HAMP) was approved by Council on 5th December 2012 setting out a series of actions enabling the Authority, by building on existing processes, to continuously improve its service delivery framework. This will assist in meeting the Authority's strategic goals in the most effective manner given the constraints of statutory requirements, customer expectations and funding considerations.

4.0 Strategic Workforce Plan

- 4.1 Merthyr Tydfil County Borough Council has been subject to significant challenge in the last few years, from increased financial pressures to challenging needs of a growing and changing community. All Local Authorities are going through a time where the delivery of services needs to be re-aligned so that the reductions in budgets do not affect the quality and outcomes for the community.
- 4.2 Merthyr Tydfil in particular has a further challenge of delivering services in a deprived area that has high demands for its social services. Many of the employees of the Council also live within the local community, and are therefore affected by the economic and social needs. It is important for the Council to succeed in its endeavour to continue to deliver quality services, respond to the social needs of the community and support economic growth.
- 4.3 The Council is faced with identifying significant budget reductions over the term of the MTFP 2019/20 to 2022/23. The Human Resources (HR) Service is active within this requirement in supporting the Council in undertaking redundancies, redeployment, re-structuring services, consultation and training.
- 4.4 The Strategic Workforce Plan is designed to review and anticipate the workforce implications and help set out some specific actions to help achieve the council's objectives and priorities. The workforce plan aims to set out a plan to deal with the known changes over the next few years and to anticipate and plan for challenges which are like to be significant for the council but may not be clearly defined. The workforce plan has been designed in line with service areas requirements and manager input to ensure it supports the delivery of critical services within the council.
- 4.5 It is clear that the Council's Strategic Workforce Plan's objectives and ambitions are intrinsically linked with effective financial management and planning and as such must be clearly demonstrated and reflected in the Medium Term Financial Plan. Moving forward, HR is committed to continuing to work proactively and strategically in partnership with each Chief Officer and Head of Service to ascertain workforce priorities and mitigate potential people risks. In particular, this will include proposals to ensure a return on investment from the apprenticeship levy, a commitment to developing the existing workforce and looking at supporting the people of Merthyr Tydfil by offering work experience options to develop skills, obtain experience of a workplace environment and to showcase the wide range of careers within the Council.

- 4.6 In 2017/18 the Council developed the Focus on the Future strategy which created a robust strategic plan integrating corporate priorities to the MTFP and people strategies. This strategy further strengthens strategic workforce planning within the Council in recognising the intrinsic link between workforce planning, Corporate strategy and financial planning.
- 4.7 In recognising its responsibility as the main employer in the County Borough area the Authority in setting its Budget for 2019/20 under challenging financial pressures, has committed itself to avoiding employee compulsory redundancies wherever possible by providing further opportunities for those employees wanting to leave the organisation on a voluntary basis.

5.0 Financial Context

- 5.1 Central Government's proposals to tackle the national public sector borrowing deficit resulting from the global financial crisis has resulted in reduced financial settlements for the public sector for the medium to long term. The Institute for Fiscal Studies in its report "*Local Government Expenditure in Wales: Recent Trends and Future Pressures*" (October 2012) is projecting financial austerity constraints until at least 2020/21.
- 5.2 In addition, the financial outlook arising from Brexit adds further uncertainty to both the Welsh Government's future Budgets and those of Local Government in Wales.
- 5.3 Wales Fiscal Analysis (WFA) is a new research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditure of Wales. In February 2019 WFA published its report "*Cut to the Bone? : An analysis of Local Government Finances in Wales 2009/10 to 2017/18 and the outlook to 2023/24*". The WFA report concluded:

"This report has outlined how nearly a decade of austerity has significantly changed the financing and spending patterns of local authorities in Wales. Grant funding from the Welsh Government has fallen by nearly a fifth in real terms from 2009/10, while local authority budgets have become increasingly reliant on Council Tax revenue.

This increase in locally-resourced revenue did not fully offset the fall in grants and net current spending on local services has been cut by over 10% per person in real terms. Even in the two better-protected areas of spending, social services and education, spending has struggled to keep up with increasing demand and costs. The sharp increase in the number

of children in care in Wales and the consequent rise in spending on children's and families' services is another example of demand pressures.

The latest local government settlement for 2019/20 confirmed that central government support will continue to fall in real terms. As local authority budgets are set, we can expect large increases in Council Tax levels across Wales and spending on some services being cut again in real terms.

The Welsh Local Government Association warned that authorities are 'running out of road' to avoid cuts in education and social services, as the share of spending on other services continues to decline. To avoid making further deep cuts to unprotected areas, our projections suggest local authorities will need to keep increasing Council Tax rapidly over coming years. According to our forecasts, Council Tax revenue could account for a quarter of local authority finance by 2023/24, up from 13.8% in 2009/10."

5.4 Revenue Settlement

5.4.1 The Welsh Government (WG) announced the Final Local Government Settlement for 2019/20 on 19th December 2018 with an Aggregate External Finance (AEF) increase of 0.24% for Wales. The Wales AEF for 2019/20 totals £4.237 billion and is the total revenue funding received from the WG being the sum of the Revenue Support Grant and Redistributed Non-Domestic rates. No indications were provided in respect of indicative future year settlements thus inhibiting Local Authorities' ability to effectively plan over the medium term.

5.4.2 Merthyr Tydfil's AEF for 2019/20 increased by 0.81% to £91.304 million being a cash increase of £729,734 after allowing for transfers into the settlement.

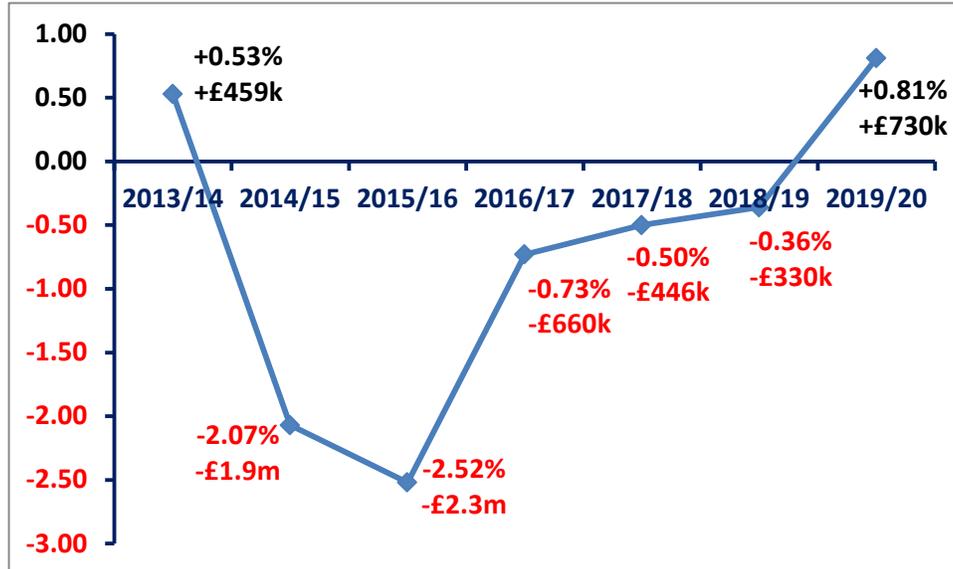
5.4.3 The base budget for 2018/19 was increased by £269,603 to allow for transfers in to the settlement for 2019/20 of £266,088 and a formula adjustment of £3,515.

The transfers in to the settlement are as follows:

- Teachers Pay Grant of £154,695
- Free School Meals Grant of £111,393

5.4.4 The Council's revenue settlements for the period 2013/14 to 2019/20 focusing on cash impact are outlined in Figure 1. It should be noted that the Council Tax Reduction Scheme grant impact is excluded for 2013/14 to enable a more meaningful funding comparison.

Figure 1 – Cash and % Changes in AEF 2013/14 to 2019/20



5.4.5 It is evident from Figure 1 that the Council has faced significant financial challenges for the period 2013/14 to 2019/20, experiencing a period of unprecedented funding reductions as Central Government continues its policy of financial austerity. The modest funding increase of 0.81% for 2019/20 still reflects a real terms reduction for the Council at a time of unprecedented additional demands within education and social services.

5.4.6 It is clear that the four year period of this MTFP continues to be critical in transforming the Authority in ensuring it is fit for purpose to meet the financial challenges of the future. This requires the aligning of scarce resources to corporate priorities ensuring effective and efficient service delivery is both maintained and further developed and improved. To this end the Authority has prudently projected annual AEF reductions of 1% for 2020/21 to 2022/23.

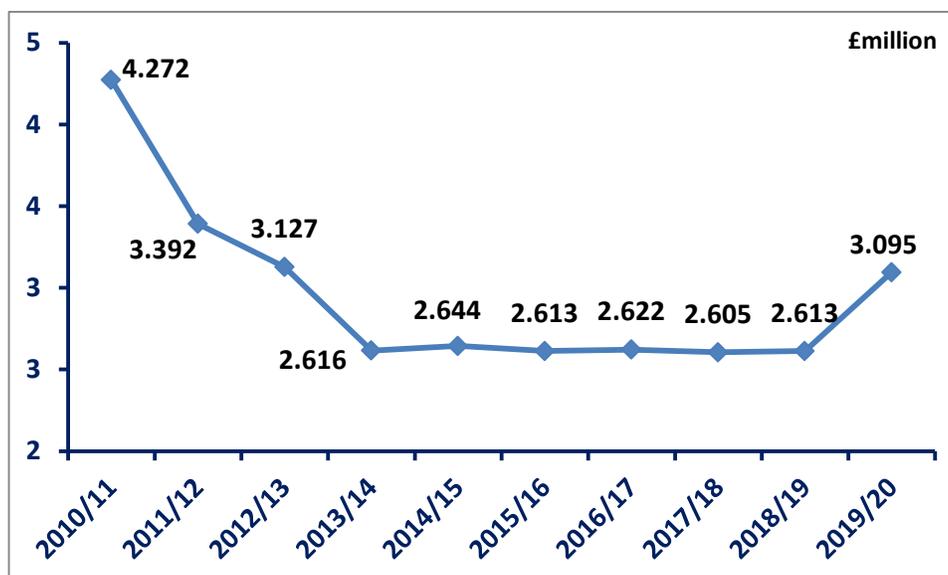
5.5 Capital Settlements

5.5.1 The WG in its announcement of the Final Local Government Settlement for 2019/20 on 19th December 2018 notified Authorities of General Capital Funding (GCF) allocations for 2019/20. GCF is the sum of General Capital Grant and Un-hypothecated Supported Borrowing and is used to finance the costs of the Council's capital investment ambitions.

5.5.2 Outlined in Figure 2 are the GCF allocations for 2010/11 to 2019/20 clearly demonstrating that Capital Settlements have significantly reduced over the period 2010/11 to 2013/14 before stabilising at circa £2.6 million per

financial year before increasing to circa 3.1 million for the 2019/20 financial year.

Figure 2 – GCF Allocations 2010/11 to 2019/20



- 5.5.3 It is evident from Figure 2 that, despite the increase for 2019/20, capital funding through the GCF has reduced significantly from 2010/11 to current funding levels. If GCF had been maintained at the 2010/11 level then the Council would have received an additional £13.121 million funding up until 2019/20. This reduction has placed additional pressures on the Council to satisfy capital investment requirements at a time when demand for capital investment in highways infrastructure, schools' reconfiguration and maintaining ageing property assets is increasing. Core capital funding is projected to remain at £3.095 million per annum over the period of the MTFP.
- 5.5.4 The Cabinet Secretary for Finance announced on 20th November 2018 in the Draft Budget for 2019/20, proposals for an extra £100 million to be made available for local authorities General Capital Fund (GCF) over 3 years, £50 million for 2018/19, £30 million for 2019/20 and £20 million for 2020/21. For 2018/19 this results in additional capital monies of £916,000 for Merthyr Tydfil, with the additional allocation for 2019/20 of £482,000 included in the Final Settlement allocation of £3.095 million.
- 5.5.5 The Council's core capital funding can be supplemented by capital receipts, which are receipts to the Authority from the disposal of its fixed assets. In addition the Council is able to enter into unsupported borrowing through the Prudential Code Framework for Capital Finance as long as this initiative is considered affordable, prudent and sustainable.

Another capital finance source is revenue contributions but in the current economic climate where revenue funding is constrained this is not considered a realistic option for the Council.

5.5.6 In addition to GCF the Council receives capital grants from a variety of sources, mainly through the guises of WG, which are restricted for specific projects and are governed by the terms and conditions of the grant approval.

5.6 **Projected Revenue Budget Outturn 2018/19**

5.6.1 As reported to Cabinet on 20th February 2019 the projected revenue outturn for 2018/19 as at 31st December 2018 is a net budget deficit of £106,000. This follows additional utilisation of earmarked reserves of £1.576 million.

5.6.2 Budget monitoring during 2018/19 has been supported by effective scrutiny and challenge provided by both the Budget Board and Change Management Steering Group. The projected revenue outturn for 2018/19 is summarised in Table 1 and is based upon the report to Cabinet of 20th February 2019.

Table 1 – Projected Revenue Outturn 2018/19

Description	Budget £'000	Projected Outturn £'000	Variance £'000	Variance %
People and Performance	76,643	78,655	2,012	2.63
Place and Transformation	24,563	24,648	85	0.35
Corporate Costs	19,462	19,302	-160	-0.82
Non General Fund Allocations	-835	-928	-93	-11.14
Collection Fund Surplus	-820	-932	-112	-13.66
Corporate Vacancy Factor	-80	-130	-50	-62.50
Net Employee Severance	456	456	0	0.00
Earmarked Reserves	-1,928	-3,504	-1,576	-81.74
Net Expenditure	117,461	117,567	106	0.09

5.6.3 Budget pressures experienced during 2018/19 considered unavoidable and recurring have been reflected in the Medium Term Financial Plan 2019/20 to 2022/23.

6.0 Revenue Budget

- 6.1 The net Revenue Budget for 2019/20 of £120.293 million, together with projected budget deficits for 2020/21 to 2022/23 are outlined in Appendices A to D, and summarised in Table 2.

Table 2 – Budget Requirements 2019/20 to 2022/23

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
People and Performance	81,307	84,379	85,981	88,265
Place and Transformation	24,309	25,135	25,868	26,659
Corporate Costs	19,621	20,939	21,187	21,547
Net Contributions/Recharges	-4,944	-1,226	568	1,571
Net Required Expenditure	120,293	129,227	133,604	138,042
Estimated Finance Available (Budget Requirement**)	-120,293	-121,116	-122,053	-123,109
Projected Budget Deficit	0	8,111	11,551	14,933

** indicative for 2020/21 to 2022/23 subject to budget reduction requirements

- 6.2 In embracing the Wellbeing of Future Generations (Wales) Act 2015 the Council has arrived at the following four wellbeing objectives:

1. Best Start to Life
2. Working Life
3. Environmental Wellbeing
4. Living Well

For the purposes of the MTFP it is assumed that each wellbeing objective reconciles to one of the four Chief Officer areas of service responsibility as demonstrated in Table 3. An additional category 'Business As Usual' denotes those service/corporate budgets not included within the four Chief Officer remits.

- 6.3 The net expenditure position for 2019/20 is outlined in Table 3 and demonstrates that for 2019/20 80% (78% in 2018/19) of the Net Revenue Budget is allocated to services directly contributing to the Wellbeing Objectives with 20% (22% in 2018/19) allocated to expenditure contributing to the Council's 'Business As Usual'.

Table 3 – Budget Requirement 2019/20 Linked to Wellbeing Objectives

Wellbeing Objective	Chief Officer Designation	Net Budget	
		£'000	%
Best Start to Life	Learning	47,469	40
Working Life	Community Regeneration	3,467	3
Environmental Wellbeing	Neighbourhood Services	10,944	9
Living Well	Social Services	33,838	28
Total		95,718	80
Business As Usual	All Other Services	24,575	20
Budget Requirement 2018/19		120,293	100

- 6.4 The Budget Requirement for 2019/20 and indicative Budget Requirements for 2020/21 to 2022/23 are the culmination of a budget setting process which commenced with the reporting of the MTFP 2018/19 to 2021/22 to Council on 7th March 2018. Budget 2019/20 and MTFP 2019/20 to 2022/23 proposals have been considered and approved (where appropriate) by Cabinet, Scrutiny Committees, Audit Committees and Council as indicated in Table 4.

Table 4 – Budget / MTFP Committee Dates

Cabinet	Council	Scrutiny / Audit
7 th November 2018	24 th October 2018	17 th December 2018
20 th February 2019	7 th November 2018	9 th January 2019
4 th March 2019	21 st November 2018	15 th January 2019
	9 th January 2019	21 st January 2019
	20 th February 2019	22 nd January 2019
		23 rd January 2019
		18 th February 2019
		28 th February 2019

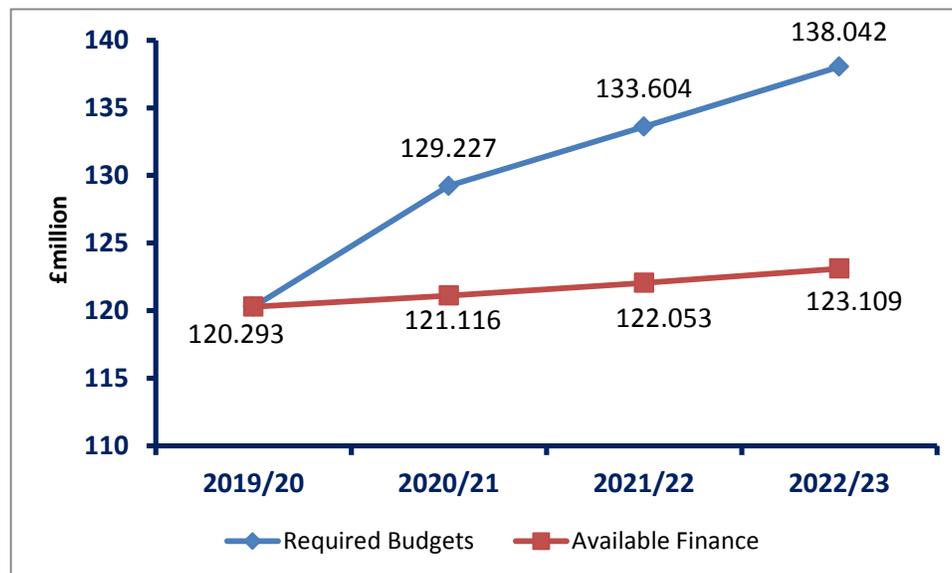
- 6.5 Outlined in Table 5 are the revisions to the 7th March 2018 position approved by Council in arriving at updated budget deficits for 2019/20 to 2022/23.

Table 5 – Budget Deficits 2019/20 to 2022/23

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Budget Deficit Council 7th March 2018	6,557	10,498	13,729	
Implications of Revenue Settlement	-2,108	-2,538	-2,957	
Corporate Additional Demands	5,821	9,010	9,627	
Corporate Budget Reductions	-3,314	-1,650	-1,616	
Schools' Budget Reductions	-663	-663	-663	
Service Budget Reductions	-2,581	-2,826	-2,839	
Specific Grants	-1,883	-2,062	-2,063	
Additional Earmarked Reserves	-895	-600	0	
Council Tax at 5.99%	-504	-1,058	-1,667	
General Reserves	-430	0	0	
Budget Deficit Council 4th March 2019	0	8,111	11,551	14,933

6.6 It is evident from Table 5 that the Council is faced with a revised budget deficit of £8.111 million for 2020/21 and £14.933 million for the 4 year period of the MTFP as represented in Figure 3. Indicative additional demands of £2 million are included for 2020/21 with a further £1 million for 2021/22 and 2022/23 to reflect inevitable further requirements in addressing demographic growth and service financial pressures.

Figure 3 – Indicative Budget Deficits 2019/20 to 2022/23



6.7 Implications of Revenue Settlement

- 6.7.1 The Welsh Government's Final Local Government Settlement was announced on 19th December 2018 and resulted in a modest increase in Aggregate External Finance (AEF) for 2019/20 of 0.81% for Merthyr Tydfil County Borough Council.
- 6.7.2 The MTFP impact resulting from the implications of the Local Government Revenue Settlement is outlined in Appendix E and summarised in Table 6 and demonstrates increased spending power of £2.108 million for 2019/20.

Table 6 – Implications of Local Government Revenue Settlement

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Aggregate External Finance	-2,353	-2,775	-3,185
Council Tax Base	-203	-211	-220
Transfers In to the Settlement	266	266	266
New Responsibilities	134	134	134
New Expectation	48	48	48
Net Impact of Settlement	-2,108	-2,538	-2,957

- 6.7.3 The Aggregate External Finance (AEF) consists of the total of Revenue Support Grant (RSG) and Redistributed Non Domestic Rates. Table 7 compares the budgeted AEF within the original MTFP with the revised finance assumptions included in the updated MTFP for 2019/20 to 2022/23.

Table 7 – Aggregate External Finance (AEF)

Description	2019/20 %	2020/21 %	2021/22 %	2022/23 %
Original Budgeted AEF	-1.50	-1.5	-1.5	n/a
Revised AEF	+0.81	-1.0	-1.0	-1.0

- 6.7.4 It is evident from Table 7 that the Council has received a better than budgeted revenue settlement for 2019/20. It is considered prudent however to estimate for a potential settlement scenario of a funding reduction of 1% per annum for the term of the MTFP owing to the following:

- The continuing austerity measures projected to be faced by Local Government over the medium term
- The impact to potential future Local Government funding from continued financial pressures experienced in the National Health Service
- The uncertainty surrounding the potential implications of Brexit
- The vagaries of the Local Government funding formula in respect of year to year changes in key datasets

6.8 **Corporate Additional Demands**

6.8.1 Managers have identified a number of additional financial demands, considered unavoidable, for inclusion in the MTFP, resulting from demographic growth and service financial pressures. These additional budget requirements are detailed in Appendix F and are summarised in Table 8.

Table 8 – Additional Budget Demands

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Education	1,965	3,248	3,510
Social Services	3,456	3,983	4,162
Neighbourhood Services	427	723	815
Community Regeneration	117	135	141
Support Services	146	146	146
Corporate Costs	710	775	853
Additional Demands Contingency	-1,000	0	0
Total Additional Demands	5,821	9,010	9,627

6.8.2 It is evident from Table 8 that a net £5.821 million of corporate additional demands are included for the 2019/20 financial year. It should be noted that the magnitude of this additional demand is unprecedented and is indicative of the financial pressures faced by all Local Authorities within the United Kingdom particularly within education and social services.

6.8.3 All corporate additional demands have been subjected to robust challenge by Corporate Management Team in determining the criticality of each demand for inclusion within the MTFP. In addition all corporate additional demands have been challenged at individual Scrutiny Committees and at Joint Scrutiny / Audit Committees.

6.8.4 It is recognised that without reflecting these additional expenditure requirements the Council will face significant financial pressures in

remaining within Budget for 2019/20 and the medium to long term. All additional demand requirements are subject to on-going review.

6.9 **Corporate Budget Reductions**

6.9.1 A number of corporate budget reduction initiatives are proposed in assisting the Council in meeting its financial commitments for 2019/20 and beyond. These are detailed in Appendix G and summarised in Table 9 and were presented to the Joint Scrutiny / Audit Committee of 23rd January 2019.

6.9.2 It is evident from Table 9 that £3.314 million of corporate budget reduction initiatives are proposed for the 2019/20 financial year.

Table 9 – Corporate Budget Reduction Initiatives

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Corporate Investment Fund	-200	-200	-200
Corporate Vacancy Factor	-200	0	0
Insurance Fund	-653	0	0
Capitalisation of Severance Costs	-600	-600	-600
Utilisation of Redundancy Reserve	-706	0	0
Corporate Budget Review	-877	-850	-816
Capital Financing Costs	-78	0	0
Total Corporate Budget Reductions	-3,314	-1,650	-1,616

6.9.3 In addressing the requirements of 'The Well-being of Future Generations (Wales) Act 2015', the sustainability of all proposals has been considered in minimising the potential impact on future Budgets.

6.10 **Schools' Budget Reductions**

6.10.1 In recognising the challenging budget deficit faced by the Council over the period of the Medium Term Financial Plan and the significant pressures for the 2019/20 financial year alone, the Schools Forum has identified budget savings within the Schools Budget with £663,000 budget reductions approved by Cabinet on 19th December 2018, following challenge at the Learning and LAESCYP Scrutiny Committee of 17th December 2018. These are outlined in Table 10.

Table 10 – Schools Budget Reductions

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Reduction in Delegated Schools Budget	-594	-594	-594
School Meals Increases (20p per meal)	-69	-69	-69
Total Schools Savings	-663	-663	-663

6.10.2 From April 2019 a primary school meal will cost £2.30 and a secondary school meal £2.70.

6.11 Service Budget Reductions

6.11.1 Service budget reductions have been identified by senior management and supported by Cabinet and are outlined in Table 11.

Table 11 – Service Budget Reductions

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Employee Voluntary Severance (Phase 1)	-1,284	-1,293	-1,300
Community Care Support Services	-170	-170	-170
Registrars Fees	-40	-40	-40
Miscellaneous Service Reductions	-610	-669	-668
Adult Accommodation Services (Phase 2)	-105	-210	-210
Employee Voluntary Severance (Phase 2)	-372	-444	-451
Total Service Budget Reductions	-2,581	-2,826	-2,839

6.11.2 It is evident from Table 11 that the service budget reductions total £2.581 million for 2019/20 with further explanation detailed as follows:

- Employee Voluntary Severance (Phase 1) – Council of 9th January 2019 approved employee voluntary early retirement and voluntary redundancy applications totalling £1.284 million for 2019/20, under the first phase of the employee voluntary severance initiative
- Community Care Support Services – relates to the report to Cabinet of 16th January 2019 in respect of charging adult recipients for non-residential community care services. The increased income reflects an increase in fees to £90 per week in accordance with the maximum weekly charge determined by Welsh Government.

- Registrars Fees – relates to the notification by the General Register Office of statutory changes to certificate fees whereby one single standard fee of £11 replaces the previous three-tier certificate fees of £4, £7 and £10. In addition the introduction of a statutory priority certificate fee of £35 replaces the previous fee of £20. The projected additional income resulting from the increased fees assumes a 20% decrease in demand.
- Miscellaneous Service Reductions – relates to the service budget reductions approved by Council on 20th February 2019 totalling £610,000 for 2019/20.
- Adult Accommodation Services (Phase 2) – relates to the report to Council of 20th February 2019 in respect of reconfiguration of adult accommodation services. A budget reduction of £105,000 is projected for 2019/20 with the proposal included under the umbrella of the second phase of the employee voluntary severance initiative
- Employee Voluntary Severance (Phase 2) – relates to the report to Council of 4th March 2019 linked to the second phase of the employee voluntary severance initiative. Budget reductions of £372,000 are projected for 2019/20.

6.12 Specific Grants

6.12.1 The MTFP includes a number of specific grants (outside of the Revenue Settlement) expected to be received by the Council from Central Government. These are outlined in Table 12.

Table 12 – Specific Grants

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Social Services Grant	-642	-642	-642
Intermediate Care Fund Grant	-270	0	0
Teachers' Pensions Grant	-715	-1,308	-1,309
Fire Authority Pensions Grant	-112	-112	-112
Education Grant	-144	0	0
Total Specific Grants	-1,883	-2,062	-2,063

6.12.2 It is evident from Table 12 that anticipated specific grants total £1.883 million for 2019/20 with further explanation detailed as follows:

- Social Services Grant – relates to a new specific grant outside of the Revenue Settlement in respect of Social Services totalling £30 million on an all Wales basis for 2019/20. Based on the Personal Social Services Indicator Based Assessments (IBA's) for the 2019/20 Final Revenue Settlement Merthyr Tydfil is expecting to receive grant of **£642,000** for 2019/20, with flexible terms and conditions for its utilisation.
- Intermediate Care Fund Grant – relates to anticipated grant income from the Welsh Government in respect of adult services and is linked to the £30 million designated by the Welsh Government for health and social services through the Regional Partnership Boards. The **£270,000** reflects resources to address cost pressures within adult services including £200,000 for domiciliary care.
- Teachers' Pensions Grant – it is anticipated that the additional increase in teachers' pensions' costs, **£715,000** for 2019/20 and circa £1.3 million thereafter, will be funded via Central Government although the Council is still awaiting confirmation. If this central funding is not forthcoming then the liability will have to be met by either in-year further service budget reductions or additional utilisation of diminishing reserves.
- Fire Authority Pensions Grant – it is anticipated that the additional increase in the Fire and Rescue Service Authority's levy of **£112,000** resulting from pension costs increases will be funded via Central Government although the Council is still awaiting confirmation. If this central funding is not forthcoming then the liability will have to be met by either in-year further service budget reductions or additional utilisation of diminishing reserves.
- Education Grant – relates to a specific grant outside of the settlement in respect of costs associated with Teachers Pay totalling £7.5 million on an all Wales basis for 2019/20. Based on the School Services Indicator Based Assessments (IBA's) for the 2019/20 Final Revenue Settlement Merthyr Tydfil is expecting to receive grant of **£144,000** for 2019/20.

6.13 Utilisation of Reserves

6.13.1 Utilisation of a further £895,000 Earmarked Reserves and £430,000 of General Reserves is proposed for 2019/20. Reserves are considered in more detail under Section 8 (Reserves Strategy) of the MTFP.

6.14 **Council Tax**

6.14.1 The spending power implications resulting from the Council tax levy are based on the following principles over the 4 year period of the MTFP:

- Council Tax increase of 5.99% per annum
- Council Tax collection rate of 96%
- Council Tax Base of 18,227.63

Previously the MTFP budget deficit projections were based on a Council Tax increase of 4.15% per annum (as approved for 2018/19).

6.15 In addition to paragraphs 6.7 to 6.14 it is important to note that the MTFP for 2019/20 to 2022/23 is compiled on the principles and assumptions outlined as follows:

- Service Delivery – based on the 2019/20 Budget service delivery approved by Council on 4th March 2019
- Pay award of 2% per annum, based on National Joint Council for Local Government Services pay award recommendations for 2019/20 maintained for the period of the MTFP
- Salary Incremental Progression – included where appropriate together with Job Evaluation implications
- Inflation – allowance for unavoidable contractual uplifts (including energy costs) where appropriate with no increase for general inflation

6.16 The projections will be continually subject to amendment based on a variety of changing circumstances, for example:

- School protection implications
- Updated pupil numbers
- Revised corporate priorities
- Results of integration reviews
- Cessation of grant funding
- New demands and initiatives
- Central Government legislation and changing policy
- Implications of Local Government Reform including increased collaboration
- Invest to save/improve agenda
- Development of further partnership working, collaborative working and shared services objectives
- Cardiff City Region City Deal
- Unforeseen emergency considerations
- Changes in interest rates
- Changes to income profiles

- Demographic changes
- Organisational restructure
- Employee cost reductions including severance costs
- Capital investment decisions
- Projected current year budget overspends/underspends
- Corporate Change Management Programme

6.17 **Consultation**

6.17.1 A public consultation exercise was undertaken across the County Borough from October 2018 to December 2018 in relation to the Council's Priorities and Budget for 2019/20 as engagement with citizens is an essential part of the budget setting process.

6.17.2 The aim of the consultation was to engage with a variety of citizens across the County Borough to gauge opinions on the delivery of services and priority services. This was done through the following processes:

- Cabinet Roadshows
- On-line survey through the Council website and social media
- Engagement through Social Media
- Local press
- CONTACT Community Newspaper
- Engagement with staff and Trade Unions

A total of 746 residents participated in the consultation.

6.17.3 Nine Cabinet Roadshows were held across the County Borough with participants presented with 10 ballot boxes, each one representing a Council service. Eight counters were distributed to each participant and they were asked to use one counter as one vote for the service area(s) they considered most important to them.

6.17.4 The results of the consultation and engagement exercise were reported to Cabinet on 20th February 2019 with Council services prioritised as indicated in Table 12.

Table 12 – Council Services Prioritisation following Public Consultation

Budget Priority Area	Priority %	Response	Rank
Schools and Education	18.7	1,118	1
Care for the Elderly	15.3	911	2
Children’s and Adults’ Social Care	14.0	835	3
Refuse and Waste	9.2	551	4
Highways and Infrastructure	8.8	524	5
Leisure and Culture	8.1	484	6
Environmental Health & Community Safety	7.7	459	7
Community Regeneration	7.2	430	8
Street Scene	6.0	357	9
Physical Regeneration	5.0	301	10
Total	100.0	5,970	n/a

6.17.5 It is evident from Table 12 that 48% of the public have prioritised education and social care by ranking in priority order 1 to 3. This mirrors the Council’s allocation of revenue resources (Table 3) in supporting education and social care.

6.18 Sensitivity Analysis

6.18.1 The development of sensitivity analyses techniques further prepares the Council for changing circumstances and its impact on the projected budget deficits for the medium term. This allows the Council to consider ‘worst case’, ‘best case’ and ‘most likely’ budget scenarios. The reported indicative budget deficits for years 2 to 4 of the MTFP, as disclosed in Tables 2 and 5, are as follows:

- 2020/21 – £8.111 million
- 2021/22 – £11.551 million
- 2022/23 – £14.933 million

The sensitivity of changing circumstances and/or revised assumptions on the reported required further budget reductions are considered in the following selected scenarios.

6.18.2 Council Tax Increase

The current MTFP for 2019/20 to 2022/23 is based on a Council Tax increase per annum of 5.99%, as approved for 2019/20.

An increase or decrease in the indicative Council Tax increase for 2020/21 of 1% to 6.99% or 4.99%, maintained for 2021/22 and 2022/23, would lead to revised budget deficits for the 3 year period as outlined in Table 13.

Table 13 – Impact of Revised Council Tax Increases

Financial Year	Budget Impact £'000	Indicative Budget Deficit at 5.99% £'000	Revised Budget Deficit at 6.99% £'000	Revised Budget Deficit at 4.99% £'000
2020/21	290	8,111	7,821	8,401
2021/22	617	11,551	10,934	12,168
2022/23	986	14,933	13,947	15,919

It is evident from Table 13 there is an increase in revenue for the Council from a further 1% increase in Council Tax of £290,000 for 2020/21, £617,000 for 2021/22 and £986,000 for 2022/23.

6.18.3 Welsh Government Funding

Further required budget reductions for 2020/21 to 2022/23 are based on estimated funding reductions of 1%.

Table 14 explores the implications of a cash flat revenue settlement of 0% and revenue settlement reduction of 2% for the projected budget deficits for 2020/21 to 2022/23. In each scenario the modelled funding reduction is projected to be maintained for the duration of the MTFP.

Table 14 – Impact of Further WG Funding Reductions

Financial Year	Budget Impact £'000	Budget Deficit at AEF of -1% £'000	Budget Deficit at AEF of 0% £'000	Budget Deficit at AEF of -2% £'000
2020/21	913	8,111	7,198	9,024
2021/22	1,817	11,551	9,734	13,368
2022/23	2,712	14,933	12,221	17,645

It is evident from Table 14 that for every 1% better than projected AEF for 2020/21, additional funding of £913,000 is secured.

7.0 Capital Programme / Capital Strategy

- 7.1 The Capital Programme for 2019/20 to 2022/23 is outlined in Appendix H and indicates a core funded Capital Programme of £14.317 million for 2019/20 and £43.458 million for the four year period.
- 7.2 It should be noted that a significant amount of additional capital investment is supported by external providers such as Welsh Government, Heads of the Valley Programme, Heritage Lottery Fund and European Regional Development Fund demonstrating the Council's ability to attract and successfully bid for external capital funding.
- 7.3 The Council currently has a number of medium to long term capital commitments linked to its Corporate Priorities and Corporate Risk Register and supported by its Asset Management Plans. These are described as follows:

7.3.1 21st Century Schools Programme

The 21st Century Schools Programme is a Welsh Government initiative to support capital investment in schools supporting the Council's educational strategic aims for providing teaching and learning in energy efficient and sustainable schools fit for the 21st Century.

'Band A' projects required 50% match funding from Local Authorities with the Council's first tranche 'Band A' projects noted below:

- Afon Taf High School refurbishment at projected cost of circa £12 million
- Ysgol Y Graig Primary School new build at projected cost of circa £7 million

The revised expenditure and financing profile for the Band A 21st Century Schools Programme is outlined in Appendix I and indicates a total project cost of £18.818 million requiring £9.409 million (50%) match funding contribution from the Council.

'Band B' projects' total investment equates to circa £54 million, as outlined in Appendix I, with the Council's contribution equating to circa £17 million.

7.3.2 Physical Regeneration Programme

This involves physical regeneration projects within the Town Centre and surrounding areas within the County Borough. Appendix J outlines the indicative Physical Regeneration Programme for the Council whereby a

financial commitment of £5.1 million from the Authority, commencing 2019/20, potentially secures the Council additional capital finance of £54.4 million. It should be noted that certain external funding bids are still subject to formal approval.

7.3.3 **Riverside**

Appendix K outlines the Riverside/Riverside Phase 3 Taff and Crescent Street Programmes. The Authority was successful in securing £6.7 million of funding in 2014/15 and 2015/16 to support both projects, with a contribution from the Authority of £6.948 million.

7.3.4 All other projects are briefly described under Appendix L.

7.4 From Appendices H to L it is evident that the Council is faced with challenging capital finance constraints but is innovative and effective in securing external funding and working with partners to support its capital investment ambitions. General Capital Funding received from the Welsh Government is projected to be maintained at £3.095 million per annum over the period of the Capital Programme, whilst new capital receipts from the sale of Council surplus assets is prudently projected not to exceed £600,000 per annum.

7.5 It is recognised that owing to funding restrictions there are a number of potential significant projects currently not included within the proposed Capital Programme which may result in further urgent requests to Cabinet for capital funding during 2019/20.

7.6 Council of 25th January 2017 approved the Joint Working Agreement formally establishing the Cardiff Capital Region Joint Committee under the City Deal initiative involving the 10 constituent Local Authorities within South East Wales. Specific projects within the initiative together with associated financial commitments are currently being determined.

7.7 Capital investment decisions will significantly impact on the net revenue expenditure of the Council especially in terms of capital financing costs (repayment of borrowing to finance expenditure on capital projects) and future running and maintenance costs of new fixed assets. Capital expenditure financed by unsupported borrowing through the Prudential Code framework for Capital Finance included in the period of the Capital Programme equates to £27.651 million.

7.8 It should be noted that unlike supported borrowing through General Capital Funding, the capital financing costs associated with unsupported borrowing is not included within the Council's Revenue Support Grant received from WG. Instead through Prudential Indicators the Council is

required to ensure the capital spending plans are affordable, prudent and sustainable.

- 7.9 Capital option appraisals are required to be formally adopted to assist with decisions involving the allocation of scarce resources to competing projects and/or priorities in establishing the full-life costs of the proposals. Once a capital project is approved the Council is also making a commitment towards the ongoing revenue running costs associated with the asset. The appraisal will take account of both quantitative and qualitative criteria and links to the Council's Asset Management Plan.
- 7.10 The Capital Strategy is a new report introduced by the 2017 edition of the Prudential Code which is intended to give a high level, concise and comprehensible overview to all elected members of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Authority's services. This report should also provide an overview of the associated risk, its management and the implications for future financial sustainability.

The areas to be covered in this strategy are:

- Capital expenditure
- Borrowing (including comparison with capital financing requirement and liability benchmark)
- Private Finance Initiative (PFI) and leasing liabilities
- Minimum revenue provision
- Investments (treasury, service and commercial)
- Guarantees and loan commitments
- Knowledge and skills

The Capital Strategy Report for 2019/20 is appended as Appendix M.

8.0 Reserves Strategy

- 8.1 The level of balances at any particular point in time (both earmarked and non-earmarked) will inform decisions in respect of proposed utilisation to either offset budget setting pressures or to increase 'one-off' expenditure on corporate priorities. It is acknowledged that the continuous use of balances to avoid difficult budget decisions is both unwise and unsustainable.
- 8.2 The following initiatives were introduced for the 2014/15 financial year to enhance the budget monitoring process in supporting effective financial management and increased accountability:

8.2.1 **The Change Management Board** (supported by the Change Management Steering Group) monitors all Medium Term Financial Plan budget proposals to ensure deliverability of all projects within stated timescales.

8.2.2 **The Budget Board** complements both the Change Management Board and effective budget accountability by rigorous scrutiny of monthly budget monitoring statements followed by robust challenging of responsible managers.

8.3 The Council's Corporate Reserves Policy was formally approved by Council on 22nd March 2017.

8.4 In demonstrating the Council's reserves strategy each type of reserve is addressed individually in paragraphs 8.5 to 8.8.

8.5 General Reserves

8.5.1 General Reserves consist of un-hypothecated reserves enabling the Council to respond to unforeseen or unexpected financial liabilities.

8.5.2 The overarching aim of the Council's Budget Board, created to embed a culture of increased budget accountability throughout all Council services, is as follows:

"To maintain an adequate, healthy General Reserves balance of between 3.5% and 4% of the Council's annual budgeted Net Revenue Expenditure in ensuring the Council continues to remain financially viable."

This objective was formally adopted within the Corporate Reserves Policy.

8.5.3 Under Part II of the Local Government Act 2003, the Chief Finance Officer is required to report upon the adequacy of general reserves (most recent report to Full Council meeting 4th March 2019). As at 1st April 2019, total General Reserves is estimated to be £4.27 million which is considered adequate for Merthyr Tydfil County Borough Council, equating to 3.55% of the net revenue budget.

8.5.4 It is proposed that General Reserves will be maintained at a minimum of £4.27 million for the duration of the MTFP 2019/20 to 2022/23. This would allow the Council the flexibility to adequately respond to the risk of potential budget overspends in volatile service budgets whilst addressing the financial implications of demographic pressures. It is not considered prudent for the Council to further utilise general reserves to support its future revenue budget plans owing to the unacceptable risk and exposure to the Council of an inadequate level of reserves to address potential

future revenue budget overspends. In addition the level and adequacy of Council general reserves is also subject to scrutiny by external regulators.

8.6 Insurance Fund

- 8.6.1 The Council maintains an Insurance Fund to enable it to respond to any known or potential future insurance liability with the balance reviewed annually by its Insurance Advisor Marsh Limited.
- 8.6.2 The audited balance at 31st March 2018 of £3.413 million includes a provision for £1.244 million reflecting the Authority's outstanding insurance claims obligations at 31st March 2018.
- 8.6.3 A review incorporating insurance claims trends and projections together with Insurance Fund comparisons with all Welsh Local Authorities has concluded that no insurance fund injection was required for 2017/18 to 2019/20. This reduces the Insurance Fund balance to a projected balance of circa £1.5 million at 31st March 2020. This is deemed satisfactory owing to the Insurance Provision of £1.244 million.

8.7 Local Management of Schools

- 8.7.1 This relates to balances held by schools in following the Council's Local Management of Schools scheme under Welsh Government regulations. The level and appropriateness of each school's balance is challenged and scrutinised by the Council's Cabinet, Schools Scrutiny Committee, Schools Forum and Budget Board.
- 8.7.2 Schools Balances reduced by 86% for the period 31st March 2013 to 31st March 2015, as follows:
 - 31st March 2013 – £1.456 million
 - 31st March 2014 – £358,000
 - 31st March 2015 – £206,000

This is owing to:

- the application of the statutory threshold for School Balances of a maximum £100,000 for Secondary and Special Schools and £50,000 for Nursery and Primary Schools governed by the School Funding (Wales) Regulations 2010; and
 - the development of more robust schools medium term financial planning
- 8.7.3 Owing to the unacceptably low school balances, Cabinet on 29th July 2015 approved a financial monitoring policy for schools introducing a more

robust scrutiny and monitoring framework undertaken by both schools and the Local Education Authority. The balances below demonstrate the success of the recovery measures in ensuring a more healthy balance position is sustained for the foreseeable future:

- 31st March 2016 – £779,000
- 31st March 2017 – £956,000
- 31st March 2018 – £1.846 million
- 31st March 2019 – £1.048 million

8.8 Other Earmarked Reserves

- 8.8.1 Other Earmarked Reserves relate to balances held for specific purposes across the range of Council services. They are closely monitored and reviewed annually by the Council's Chief Finance Officer.
- 8.8.2 Balances held for specific purposes at 31st March 2018 total £10.6 million. This excludes reserves re-classified as creditors and funds administered by the Council such as the Ffos Y Fran Community Fund.
- 8.8.3 Through continuous monitoring and review, every realistic opportunity to release earmarked reserves to assist with future budget planning is explored.
- 8.8.4 It is projected that circa £6.6 million earmarked reserves will be utilised for 2018/19 with a further £2.5 million utilised for 2019/20.
- 8.9 Members' engagement in scrutinising the level of reserves held by the Council is ensured through the following processes, with the main focus being in respect of the Council Fund (General Reserves) and Schools Balances:
 - Cabinet Members are appraised of reserve balances during the budget setting process through Cabinet Budget Workshops and subsequent formal Cabinet meetings and provide effective challenge where appropriate
 - The Budget Board considers the adequacy of reserves and balances through budget monitoring updates and is attended by Cabinet Members
 - Members of the Scrutiny Committees and Audit Committee, encompassing all Council Members in at least one committee, challenge the use and adequacy of reserves where appropriate
 - Schools Forum considers the adequacy of schools balances and provides effective challenge

- The adequacy of General Reserves is reported to the Full Council meeting tasked with approval of the annual Budget and is subject to question

9.0 Treasury Management

- 9.1 The Council's Treasury Management Strategy Statement for 2019/20 is appended as Appendix N. The Prudential Indicators included within the Policy, ensure that the Council's borrowing and investment plans included within the MTFP are affordable, prudent and sustainable.
- 9.2 Appendix N reflects the Minimum Revenue Provision Statement for 2019/20 approved by Council on 4th March 2019.
- 9.3 A Treasury Outturn Statement for 2018/19 and a Mid- Year Treasury Statement for 2019/20 will be reported to Council during the 2019/20 financial year.
- 9.4 If appropriate, revised Prudential Indicators may be reported to Council during 2019/20 in the event of unforeseen circumstances such as greater than projected borrowing or potential breach of borrowing limits.

Medium Term Financial Plan 2019/20 to 2022/23**Corporate Summary**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
People and Performance Directorate	81,307	84,379	85,981	88,265
Place and Transformation Directorate	24,309	25,135	25,868	26,659
Corporate Costs	19,621	20,939	21,187	21,547
Discretionary Non Domestic Rate Relief	94	94	94	94
Apprenticeship Levy	268	271	274	277
Employee Severance Costs	600	1,306	1,306	1,306
Capitalisation of Severance Costs	-600	-600	-600	-600
Indicative Additional Demands	0	2,000	3,000	4,000
Non General Fund Allocations	-835	-835	-835	-835
Collection Fund Surplus	-835	-850	-850	-850
Corporate Vacancy Factor	-600	-400	-400	-400
Contribution from Living Wage Reserve	-296	0	0	0
Contribution from Corporate Investment Fund	-188	-192	0	0
Contribution from Budget Reserve	-1,295	-600	0	0
Centrally Funded Teachers/Fire Pensions	-827	-1,420	-1,421	-1,421
General Reserves	-430	0	0	0
Net Expenditure	120,293	129,227	133,604	138,042
Available Finance	-120,293	-121,116	-122,053	-123,109
Projected Budget Deficit (to be identified through the Corporate Change Programme)	0	8,111	11,551	14,933

Medium Term Financial Plan 2019/20 to 2022/23**People and Performance Directorate**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Social Services</u>				
<u>Business Support</u>				
Compliments and Complaints	77	79	80	81
Quality & Regulation Services	102	105	108	111
Client Financial Management Services	218	222	227	232
Receivership	28	28	28	28
<u>Duty, IAA & ACT Compliance</u>				
Out of Hours/Emergency Duty Services	71	72	72	73
IAA Duty Services	70	71	72	74
<u>Early Intervention and Assistance Services</u>				
Carers Network	212	215	217	220
<u>Social Services Collaborative Partnerships</u>				
Integrated Community Equipment Store (ICES)	169	175	181	187
Cwm Taf Social Care Workforce Development	146	152	157	161
Cwm Taf Youth Offending Services	280	315	320	340
Vale, Valleys & Cardiff (VVC) Regional Adoption Group	189	193	197	208
Integrated Family Support Services (IFST)	280	280	280	280
Delivering Transformation (Collaborative Regional Change Agenda)	62	62	62	62
Cwm Taf Autism Service	40	40	40	40
Deprivation of Liberty (DOLs) Services	74	74	75	76
Cwm Taf Reflect Service	19	19	19	19
<u>Adult Social Care</u>				
Adult Services Management	81	82	84	85
Social Care Client Service Strategies	51	70	73	76
Health Park Accommodation	163	163	163	163
<u>Assessment & Care Management Services</u>				
Social Work Team	1,163	1,197	1,227	1,257
<u>Initial Support Services</u>				
ISS Management	69	71	72	74
Initial Adult Services	239	245	251	255
Initial Response Services	559	572	585	599
Community Occupational Therapy	329	337	344	353
Telecare / Telehealth Services	107	107	107	112

Medium Term Financial Plan 2019/20 to 2022/23
People and Performance Directorate

Description	Budget	Indicative	Indicative	Indicative
	2019/20	Budget	Budget	Budget
	£'000	£'000	£'000	£'000
<u>Supported and Accommodation Services</u>				
MTCBC Homes for the Elderly	1,737	1,684	1,734	1,784
MTCBC Group Home (Llysfaen Fach)	931	950	968	986
Supporting People	103	105	107	109
<u>Day Care Services</u>				
Outside/Community Based Activities	238	241	246	249
Day Centres	1,023	1,034	1,056	1,081
Transport	247	256	265	274
<u>Independent External Care Provision</u>				
Supported Placements	3,079	3,493	3,620	3,825
Shared Lives	350	385	421	458
Independent Domiciliary Care	2,223	2,721	2,959	3,295
Direct Payments	1,846	1,938	2,018	2,080
Independent Commissioned Day Services	166	166	166	166
Independent Residential Establishments (IRE's)	5,021	5,168	5,319	5,673
Extra Care Facility	254	266	278	290
<u>Children's Social Care</u>				
Children's Social Care	138	141	144	147
<u>Children with Disabilities</u>				
Children with Disabilities	746	746	756	778
<u>Children Looked After</u>				
Looked After Children Team	492	506	517	529
Looked After Children Educational Support (LACES)	170	173	175	178
Fostering & Family Placement Team	437	446	455	464
LAC Residential Placement Services	2,878	2,900	2,871	2,900
Fostering Services	3,304	3,153	3,040	3,209
Children Looked After (Court, Legal & Professional) Services	100	100	100	100
Leaving Care Support Services	605	896	943	802
Adoption Services	109	122	135	148
Advocacy Services	60	60	60	75
<u>Intake & Family Support Services</u>				
Intake Team	458	474	487	500
Child & Family Team	624	644	664	685
Specialist Family Support	25	25	25	25
Family Centre & Contact Services	503	511	519	528
Children in Need	521	534	548	558
Support Other Than Looked After Services	811	791	760	790

Medium Term Financial Plan 2019/20 to 2022/23
People and Performance Directorate

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Youth Justice Services</u>				
Youth Justice Services (LASPO)	0	0	0	0
<u>Safeguarding</u>				
Merthyr Tydfil Safeguarding Manager	69	70	72	73
Independent Safeguarding Services	121	121	124	124
Multi Agency Safeguarding Hub (MASH)	293	300	307	314
<u>Social Services Grant</u>	-642	-642	-642	-642
Total Social Services	33,838	35,424	36,258	37,721

Medium Term Financial Plan 2019/20 to 2022/23
People and Performance Directorate

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Learning</u>				
<u>Individual Schools Budget</u>				
Individual Schools Budget (ISB)	39,760	41,131	41,745	42,354
Education Other than at School (EOTAS) / Pupil Referral Unit (PRU)	531	503	520	537
Ynysowen Speech & Language	81	82	84	86
Partial Hearing Classes	169	171	175	178
Education Improvement Grant (EIG)	220	220	220	220
<u>Other School Expenditure</u>				
Maternity Costs	64	65	66	68
Facility Time	65	71	75	80
Retirement / Severance	373	381	390	401
<u>School Meals</u>	14	14	14	14
<u>Strategic Management and Support</u>				
Strategic Management and Support (now only training)	7	7	7	7
Extended Leadership Team	72	73	75	76
<u>School Support Services</u>				
Statutory Building Compliance/Maintenance	80	80	80	80
Health & Safety	25	26	27	28
Caretaking & Cleaning SLA	1	1	2	3
LMS & Resources	51	53	54	56
Admissions	67	69	70	72
Governor Support	29	31	32	33
General Office Running Costs	8	8	8	8
Peripatetic Music Service	0	0	0	0
Youth Orchestra Service	16	16	16	16
<u>Other Education</u>				
Local Safeguarding Children's Board (LSCB)	9	9	9	9
Vacant Education Properties	0	3	3	3
School Building Lease	17	17	17	17

Medium Term Financial Plan 2019/20 to 2022/23
People and Performance Directorate

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Special Educational Needs</u>				
Education Inclusion	65	66	67	68
Enhanced Provision (1-1 Learning Support Assistants)	1,582	1,614	1,647	1,680
Enhanced Provision (Behavioural Support)	183	187	191	195
Speech Therapists	52	52	53	54
Special Tuition	195	200	205	210
Special Needs Advisory Teachers	172	175	178	180
Special Recoupment	666	666	666	666
Psychological Services	388	397	405	414
SNAP Cymru	13	13	13	13
ALN Training	12	12	12	12
School Counselling	70	72	72	72
School Transport	1,042	1,072	1,104	1,136
<u>School Improvement</u>				
Strategic Education Projects	42	42	42	42
Schools Data Management Systems	109	111	113	115
Joint Education Service	242	242	242	242
<u>Early Years and Youth Management</u>	60	62	63	64
<u>Early Years & Youth</u>				
Early Years	153	154	157	207
Integrated Children's Centre Services	-38	-22	-21	-21
Integrated Children's Centre building	95	96	98	100
<u>Youth Services</u>				
1400 Youth Service Management	125	128	130	133
1422 Youth Service Street based	72	75	75	77
1425 Youth Service 16+	37	37	38	39
1451 Youth Service Penydre	48	47	49	51
1452 Youth Service Treharris	76	78	80	83
1457 Youth Service Cyfarthfa	82	84	85	88
1466 Youth Service Troedyrhiw	77	79	81	83
Sufficiency Assessments	20	20	20	20
Participation & Youth Support Services	83	85	86	88
<u>Inspire Programmes Grants</u>	24	24	24	24
<u>Community Development</u>				
Adult Community Learning (inc. Venture Out)	63	56	59	63
Total Learning	47,469	48,955	49,723	50,544
Net Expenditure	81,307	84,379	85,981	88,265

Medium Term Financial Plan 2019/20 to 2022/23**Place and Transformation Directorate**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Director</u>				
ICT Computers	1,444	1,469	1,492	1,533
Schools Support Team	0	0	0	0
ICT Printing	154	158	161	164
Business Change, Risk and Welsh Language	420	427	436	473
Corporate Communications Team	134	137	138	142
News Merthyr/Contact Supplement	1	1	1	1
Emergency Planning	97	99	101	103
<u>Community Regeneration</u>				
Economic Development	213	218	224	227
Physical Regeneration	187	190	193	196
Rights of Way	97	99	100	101
Orbit Business Centre	-62	-52	-53	-50
<u>Employability</u>				
Employability core	213	222	225	229
<u>Neighbourhood Services</u>				
Bereavement Services	-26	-22	-12	-2
Grounds Maintenance	1,264	1,297	1,334	1,368
Street Cleansing	1,245	1,242	1,269	1,295
Fleet Management	73	75	77	78
<u>Refuse and Waste</u>				
Waste Disposal	790	826	862	900
Household Waste Recycling Centres	722	744	766	788
Recycling	248	254	260	265
Refuse Collection	1,054	1,068	1,091	1,107
Sustainable Waste Management Grant	893	1,200	1,240	1,351
Pentrebach Waste Management Depot	369	385	401	406

Medium Term Financial Plan 2019/20 to 2022/23**Place and Transformation Directorate**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Highways and Engineering</u>				
Highways Administration	424	426	435	443
Highways Operational	994	1,006	1,020	1,033
Street Lighting	304	327	351	380
Bridge Maintenance	99	99	99	100
Land Drainage	50	52	54	56
Land Reclamation	24	24	24	24
Traffic Management	23	24	24	24
Engineering	330	341	348	355
Depots	25	36	38	39
<u>Corporate Property & Estates</u>				
Corporate Property & Estates Division	577	576	655	662
Asset Management	18	19	19	20
Office Accommodation	736	752	769	788
<u>Public Protection</u>				
Housing Renovation Grants	-87	-86	-25	-23
Housing Services (RSL's Advice & Strategy)	497	513	520	529
Community Safety	73	75	77	78
Glynmil Gipsy Site	3	3	3	3
Trading Standards General	196	203	209	216
Licensing	16	23	27	31
Public Health	97	99	102	104
Environmental Protection & Housing	166	169	177	178
Operational - Dog Warden and Pest Control	31	32	32	33
Animal Impounding	2	2	2	2
Food Safety & Prevention of Infectious Diseases	181	185	190	194
Default Works	0	0	0	0
Registrars	34	39	43	46
Contribution from Renewal Reserve	-50	0	0	0
Transport	1,660	1,688	1,716	1,744
<u>Planning & Countryside</u>				
Planning - Development Control	166	174	181	188
Planning - Development Plan	481	430	438	447
Building Control	61	64	68	72

Medium Term Financial Plan 2019/20 to 2022/23**Place and Transformation Directorate**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
<u>Corporate Services</u>				
Scrutiny, Partnerships and Performance	340	352	364	374
Service Support and Development	1,044	1,066	1,091	1,111
Executive Support	174	177	181	184
CCTV	140	142	143	146
Peace of Mind	-4	3	10	13
Audit	242	250	257	264
Benefits	297	312	343	372
Revenues	-55	-40	-24	0
Parking Services	-338	-342	-341	-338
Leisure Trust	2,423	2,423	2,423	2,423
Retained Leisure budgets	83	85	86	88
<u>Finance</u>				
Accountancy	732	745	761	776
Insurance	47	47	48	49
Creditors	154	158	161	164
Procurement	205	213	217	223
<u>Human Resources and Organisational Devt.</u>				
Human Resources	531	547	560	571
Trade Unions	26	27	26	28
Payroll	195	199	203	208
<u>Legal</u>				
Legal	250	257	263	268
Information Governance	61	62	63	65
Democracy	202	206	209	213
Register of Electors	40	44	44	44
Elections	0	0	0	85
Mayor Expenses	69	72	73	75
Members Expenses	790	798	805	812
Net Expenditure	24,309	25,135	25,868	26,659

Medium Term Financial Plan 2019/20 to 2022/23**Corporate Costs**

Description	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
Corporate Management - Executive	1,432	1,466	1,502	1,539
Corporate Authority				
Capital Financing Costs	7,426	8,006	8,160	8,432
Rent Allowances	-6	-6	-6	-6
Council Tax Benefit Payments	6,075	6,125	6,175	6,225
Levies	3,083	3,083	3,083	3,083
Contribution to Pensions	453	453	453	453
External Audit and Inspection Fees	330	330	330	330
Insurances	400	1,053	1,053	1,053
Provision for Bad Debts	100	100	100	100
External Legal Fees	30	30	30	30
Grants to Voluntary Organisations	5	5	5	5
Subscriptions	95	95	95	95
Bank Charges	93	93	93	93
Empty Property NDR Relief	32	33	34	35
Welsh Translations	65	65	65	65
Welsh Water Long Term Debt Interest	-7	-7	0	0
Corporate Property	-67	-67	-67	-67
Purchase to Pay	42	42	42	42
Energy Levy	40	40	40	40
Net Expenditure	19,621	20,939	21,187	21,547

Medium Term Financial Plan 2019/20 to 2022/23
Impact of Local Government Revenue Settlement

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
<u>Aggregate External Finance (Note 1)</u>			
Budgeted Settlement (Note 2)	88,951	87,616	86,302
Final Settlement (Note 3)	91,304	90,391	89,487
Increase in Aggregate External Finance	-2,353	-2,775	-3,185
<u>Council Tax Base</u>			
Provisional Council Tax levy (Note 4)	28,282	29,456	30,679
Final Council Tax levy (Note 5)	28,485	29,667	30,899
Increase in Council Tax levy (Note 6)	-203	-211	-220
<u>Transfers In to the Settlement (Note 7)</u>			
Teachers Pay Grant	155	155	155
Free School Meals Grant	111	111	111
Total Transfers In	266	266	266
<u>New Responsibilities (Note 8)</u>			
Charging for Residential Care	134	134	134
Total New Responsibilities	134	134	134
<u>New Expectation (Note 9)</u>			
Discretionary Rate Relief	48	48	48
Total New Expectations	48	48	48
Net Impact of Revenue Settlement	-2,108	-2,538	-2,957

Notes

1. The Aggregate External Finance (AEF) consists of the total of Revenue Support Grant and Redistributed Non Domestic Rates
2. Based on indicative Council projected AEF of -1.5% for 2019/20 to 2021/22
3. Based on Final Welsh Government AEF of +0.81% for 2019/20 and estimated Council AEF of -1% for 2020/21 to 2022/23
4. Based on Provisional Council Tax Base of 18,098.08 (96% collection rate) – 2018/19 base approved by Council 13th December 2017
5. Based on Final Council Tax Base of 18,227.63 (96% collection rate) – 2019/20 base approved by Council 19th December 2018
6. Based on an indicative Council Tax Increase of 4.15% per annum (as approved for 2018/19)
7. Transfers in to the Settlement of monies previously held outside the Settlement as specific grants
8. Additional monies included within the Settlement in respect of new responsibilities relating to an increase to the capital limit for charging for residential care from £40,000 to £50,000
9. Reflects new expectation in respect of discretionary rate relief for small businesses

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
1	<p>Learning – Individual Schools Budget (ISB) Further requirement following the re-calculation of the ISB reflecting projected future need, pupil numbers and pay award based on 2018/19 service provision. (Council 21st November 2018)</p>	14	648	843
2	<p>Learning – Enhanced Provision Additional requirement reflects current actual pupil demand in system as evidenced by the projected budget overspend in 2018/19, £575,000 reported to Cabinet of 21st November 2018. Reflects additional 2,692 support hours per week. (Council 21st November 2018)</p>	432	442	454
3	<p>Learning – Education Other Than At School (EOTAS) Reflects the new registered Pupil Referral Unit (PRU). This investment results in cost avoidance within the Special Recoupment Budget. (Council 21st November 2018)</p>	124	144	161
4	<p>Learning – Learning Resource Bases (LRB) Reflects the net cost of the restructure review linked to enhanced provision and PRU. (Council 21st November 2018)</p>	361	350	350
5	<p>Learning – Teachers Pensions Reflects the increase in the teachers' pension rate from the current 16.48% to 23.6% from September 2019. Through the Welsh Local Government Association central funding is being sought from the UK Government / Welsh Government to meet this significant unexpected financial burden. (Council 21st November 2018)</p>	715	1,308	1,309

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
6	Learning – Special Educational Needs (SEN) Transport Reflects additional contracts and fee uplifts applicable from September 2018. (Council 21 st November 2018)	63	93	125
7	Learning – Facility Time Reflects facility time for Schools Union representatives – Council approval 24 th October 2018. (Council 21 st November 2018)	49	55	59
8	Learning – Building Maintenance Reflects current demand in the system in responding to statutory responsibilities including legionnaires, asbestos, periodic testing and repairs and maintenance. (Council 21 st November 2018)	33	33	33
9	Learning – Special Needs Advisory Teachers Reflects critical demand for a school nurse at Greenfield Special School. (Council 21 st November 2018)	54	55	56
10	Social Services – Children Looked After Residential Placements Reflects financial pressures resulting from additional residential placements as evidenced by the projected budget overspend in 2018/19, £647,000 reported to Cabinet of 21 st November 2018. (Council 21 st November 2018)	1,076	1,025	1,004

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
11	<p>Social Services – Children Looked After Fostering Services Reflects financial pressures resulting from additional number of children accessing independent fostering services as evidenced by the projected budget overspend in 2018/19, £185,000 reported to Cabinet of 21st November 2018. (Council 21st November 2018)</p>	313	377	337
12	<p>Social Services – Children Looked After Leaving Care Support Services Reflects the current service demand within the system (Council 21st November 2018)</p>	134	327	266
13	<p>Social Services – Children Looked After Court, Legal and Professional Services Reflects current demand within the system. (Council 21st November 2018)</p>	20	20	20
14	<p>Social Services – Intake and Family Support Services Reflects the current cost of the service in respect of Special Guardianship Orders and allowances relating to 122 children. (Council 21st November 2018)</p>	234	269	124
15	<p>Social Services – Independent Domiciliary Care Reflects the service experiencing “winter pressures” demand level throughout the spring and summer period resulting in an increased financial burden. Local Authorities across Wales are experiencing similar pressures. (Council 21st November 2018)</p>	356	507	668

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
16	Social Services – Direct Payments Reflects current service demand including transition of children into adult services and minimum wage requirements. (Council 21 st November 2018)	251	270	278
17	Social Services – Cwm Taf Reflect Service Reflects Merthyr Tydfil's contribution of 22% to this regional initiative. (Council 21 st November 2018)	19	19	19
18	Social Services – Welsh Community Care Information System (WCCIS) Reflects Merthyr Tydfil's contribution to this regional arrangement. Funded through the Intermediate Care Fund (ICF) grant in 2019/20. (Council 21 st November 2018)	0	17	17
19	Social Services – Children with Disabilities Reflects current service demand including transition of children into adult services and minimum wage requirements. (Council 21 st November 2018)	13	34	28
20	Social Services – Supported Placements (DRIVE) Supported Living Packages of Care are commissioned via DRIVE. The increase reflects the needs of current care plans including the impact of the Welsh Independent Living Fund into the Revenue Support Grant and a reduction in the level of Supporting People Grant available to support housing related needs. (Council 21 st November 2018)	43	85	93

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
21	<p>Social Services – Supported Placements (Individual Care Packages) Reflects the current need within the system for individual supported living packages of care. (Council 21st November 2018)</p>	63	0	275
22	<p>Social Services – Supported Placements (After School Services) Reflects current service demand including an increase in the transition of young people into adult services. Supports young adults with disabilities. (Council 21st November 2018)</p>	8	8	8
23	<p>Social Services – Supported Placements (Independent Group Homes) Reflects reduction in Supporting People Grant to support the Park View and Glendere independent group homes. (Council 21st November 2018)</p>	16	32	33
24	<p>Social Services – Supported Placements (Learning Disabilities Pooled Budget) Reflects reduction in monies received through the Intermediate Care Fund to support learning disabilities. (Council 21st November 2018)</p>	0	82	80
25	<p>Social Services – MTCBC Homes for the Elderly Reflects requirement for increased staff numbers within Ty Bargoed Newydd to appropriately enhance care provision for residents. (Council 21st November 2018)</p>	53	54	55

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
26	<p>Neighbourhood Services – Grounds Maintenance Reflects reinstatement of the budget for 24 hour manned security at Cyfarthfa Park and associated inflationary costs. (Council 21st November 2018)</p>	47	52	58
27	<p>Neighbourhood Services – Fleet Management Reflects replacement of mayoral car with a contract hired vehicle owing to the current vehicle reaching the end of its useful economic life. (Council 21st November 2018)</p>	6	6	6
28	<p>Neighbourhood Services – Fleet Management Reflects replacement of farms collection vehicle with a leased vehicle owing to the current vehicle reaching the end of its useful economic life. (Council 21st November 2018)</p>	8	8	8
29	<p>Neighbourhood Services – Fleet Management Reflects replacement of 2 garden waste collection vehicles with leased vehicles owing to the current vehicles reaching the end of their useful economic lives in 2020/21. (Council 21st November 2018)</p>	0	60	60
30	<p>Neighbourhood Services – Fleet Management Reflects replacement of 8 kerbside recycling collection vehicles with leased vehicles owing to the current vehicles reaching the end of their useful economic lives in 2020/21. (Council 21st November 2018)</p>	0	205	205

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
31	Neighbourhood Services – Waste Disposal Reflects inflationary increases arising from the Energy from Waste contract. (Council 21 st November 2018)	53	59	65
32	Neighbourhood Services – Refuse Reflects additional repair and maintenance costs for refuse vehicles. (Council 21 st November 2018)	15	15	15
33	Neighbourhood Services – Sustainable Waste Management Grant Reflects additional repair and maintenance costs for recycling vehicles. (Council 21 st November 2018)	36	36	36
34	Neighbourhood Services – Sustainable Waste Management Grant Reflects £47,000 grant shortfall in 2018/19 and projected 5% grant reduction for 2019/20. (Council 21 st November 2018)	63	63	63
35	Neighbourhood Services – Sustainable Waste Management Grant Reflects the requirement for 4 additional staff within the recycling service resulting in recycling rounds reducing from 10 to 8 whilst the crew per vehicle increases from 2 to 3. The objective is cost avoidance by reducing sickness levels and resulting agency cover and reducing reliance on agency HGV drivers. (Council 21 st November 2018)	123	128	135
36	Neighbourhood Services – Waste Depot Reflects repair and maintenance costs in respect of the waste depot's bailer and sorting line. (Council 21 st November 2018)	10	20	28

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
37	<p>Neighbourhood Services – Highways Operations Reflects reinstatement of the gully service budget following the discontinuation of the budget saving proposal for 2018/19. (Council 21st November 2018)</p>	30	30	30
38	<p>Neighbourhood Services – Street Lighting Reflects additional energy costs for 270 street lights and 2 sets of traffic lights. (Council 21st November 2018)</p>	4	5	5
39	<p>Neighbourhood Services – Corporate Property and Estates Reflects increased contracted hours of a Principal Officer post from 30 to 37 hours. (Council 21st November 2018)</p>	12	13	13
40	<p>Neighbourhood Services – Corporate Property and Estates Reflects the financing of a permanent Energy Officer post as per Council approval on 6th June 2018. For the period 2019/20 to 2020/21 the post is funded through the Corporate Investment Fund. (Council 21st November 2018)</p>	0	0	62
41	<p>Neighbourhood Services – Office Accommodation Reflects manned security contract inflation resulting from the National Living Wage. (Council 21st November 2018)</p>	14	17	20
42	<p>Neighbourhood Services – Building Control Reflects re-alignment of building control search fees income. (Council 21st November 2018)</p>	6	6	6

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
43	Community Regeneration – Transport Reflects increases in mainstream home to school transport contract prices, variations to existing contracts, one additional contract, local bus service contract increases and increases in software charges and licence fees. (Council 21 st November 2018)	78	80	81
44	Community Regeneration – Transport Reflects reinstatement of the budget from the discontinuation of the original proposal in respect of removal of post-16 home to school transport together with increased contract costs resulting from additional mileage. (Council 21 st November 2018)	39	55	60
45	Corporate Services – Service Support and Development Reflects reduction in Service Level Agreement with Merthyr Tydfil Leisure Trust in respect of switchboard services. (Council 21 st November 2018)	22	22	22
46	Corporate Services – Benefits Reflects reinstatement of budget in respect of contribution to Citizen’s Advice Bureau. (Council 21 st November 2018)	69	69	69
47	Corporate Services – Revenues Reflects re-alignment of bailiff income budget. (Council 21 st November 2018)	48	48	48
48	Legal and Democratic Services – Members Expenses Reflects increase in members’ salaries. (Council 21 st November 2018)	7	7	7

Appendix F (continued)

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
49	Corporate Costs – Bank Charges Reflects increase in merchant banking contract fees and loss of credit card surcharge income. (Council 21 st November 2018)	22	23	23
50	Corporate Costs – Capital Financing Costs Reflects additional interest payments associated with the deferment of the initiative to repay £12 million Lender Option Borrower Option (LOBO) long-term loans. Owing to changing economic and interest rate forecasts the proposal is no longer considered affordable at this time – Cabinet approval 25 th July 2018. (Council 21 st November 2018)	200	200	287
51	Corporate Costs – Residual Strategic Partnership Savings Reflects savings deficit in respect of the budgeted £902,000 procurement savings included within the Medium Term Financial Plan. It is anticipated that further savings will be achieved through the contract management gateway process governed by the Procurement Board. (Council 21 st November 2018)	109	105	61
52	Corporate Costs – Additional Pay Award Costs Reflects the additional costs arising from the National Employers for Local Government Services pay award for the period 1 st April 2018 to 31 st March 2020. In essence although the pay award equates to a 2% increase per annum this increase is greater for employees at the lower spinal points of the pay structure. (Council 21 st November 2018)	207	195	190

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
53	<p>Corporate Costs – Purchase to Pay System Reflects additional costs of supporting and maintaining the Council's purchase to pay system following replacement of the existing system – Cabinet approval 4th July 2018. (Council 21st November 2018)</p>	42	42	42
54	<p>Corporate Costs – IT Replacement Programme Relates to both hardware and software costs and is time critical owing to the necessity to remove Windows 7 (end of life) from the network by January 2020 to avoid public sector network non-compliance, loss of connection and the risk of cyber-attack. (Council 21st November 2018)</p>	200	200	200
55	<p>Indicative Additional Demands Contingency Reflects a 'growth' contingency included in the original Medium Term Financial Plan which part offsets the additional demand liability. (Council 21st November 2018)</p>	-1,000	0	0
56	<p>Social Services – Independent Domiciliary Care Reflects increased costs in respect of increased payment to independent providers of domiciliary care. Exempt report to Cabinet of 19th December 2018. (Council 20th February 2019)</p>	270	270	270

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
57	<p>Social Services – Independent Domiciliary Care Relates to increased costs reflecting increases in hourly charges and service demand in respect of spot purchasing and National Living Wage contract fee uplifts. (Council 20th February 2019)</p>	89	89	89
58	<p>Social Services – Children Looked After Residential Placements Reflects further financial pressures resulting from additional residential placements from 10 full year placements and 2 part year placements to 13.6 full year placements. (Council 20th February 2019)</p>	498	498	498
59	<p>Corporate Costs – South Wales Fire and Rescue Authority Relates to a potential increase in the South Wales Fire and Rescue Authority levy of 0.64% for 2019/20 from £2,772,639 to £2,790,365. (Council 20th February 2019)</p>	18	18	18
60	<p>Learning – Individual Schools Budget (ISB) Relates to an additional budget requirement following the re-calculation of the ISB reflecting final pupil numbers confirmed in January 2019. (Council 20th February 2019)</p>	120	120	120
61	<p>Corporate Costs – IT Replacement Programme Relates to the reversal of Reference 54 owing to the capitalisation of the IT replacement programme expenditure. (Council 20th February 2019)</p>	-200	-200	-200

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Additional Demands

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
62	Corporate Costs – Capital Financing Costs Reflects the additional revenue costs associated with the additional borrowing required to finance the capitalisation of the IT replacement programme. (Council 20 th February 2019)	0	80	120
63	Corporate Costs – South Wales Fire and Rescue Authority Relates to the decision made by the South Wales Fire and Rescue Authority to levy constituent Local Authorities on the premise that the fire and rescue service additional pension cost increases are not funded by Central Government. This is an additional cost to that outlined in Reference 59, reflecting a 4.7% increase (£130,000) to a total levy of £2,903,025. (Council 4 th March 2019)	112	112	112
	Total	5,821	9,010	9,627

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Budget Reductions

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
1	<p>Corporate Investment Fund Relinquishment of the budgeted contribution of £200,000 over the term of the Medium Term Financial Plan. The Fund balance at 31st March 2019 is anticipated to be in excess of £500,000 but is fully committed over the term of the Medium Term Financial Plan. Further contributions to the Fund may result from on-going reviews of and release from earmarked reserves balances. (Council 21st November 2018)</p>	-200	-200	-200
2	<p>Corporate Vacancy Factor Relates to savings resulting from the time elapsing between core funded posts becoming vacant and being filled. Proposal to increase budget from £400,000 to £600,000 for 2019/20 reflecting the surplus vacancy factor outturn reported for 2017/18 and on-budget projection for 2018/19. (Council 21st November 2018)</p>	-200	0	0
3	<p>Insurance Fund A review incorporating insurance claims trends and projections has concluded that no insurance fund injection is required for 2019/20. This proposal will reduce the Insurance Fund from a balance of £2.169 million at 31st March 2018 to a projected balance of circa £1.469 million at 31st March 2020. This is deemed satisfactory as an Insurance Provision totalling £1.244 million at 31st March 2018 also exists to meet the Council's currently known outstanding insurance claims obligations. (Council 21st November 2018)</p>	-653	0	0

Medium Term Financial Plan 2019/20 to 2022/23
Corporate Budget Reductions

Ref.	Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
4	<p>Capitalisation of Severance Costs The Welsh Government has confirmed extension of the scheme allowing capital receipts to be used to finance revenue costs of service reform for the period 2019/20 to 2021/22. This allows Merthyr Tydfil to utilise new capital receipts to assist with the costs of employee severance payments. (Council 21st November 2018)</p>	-600	-600	-600
5	<p>Employee Severance Costs Proposed that a maximum £706,000 contribution from the £1 million Redundancy Reserve is utilised during 2019/20 to finance the remaining revenue budget commitment net of capitalised element. (Council 21st November 2018)</p>	-706	0	0
6	<p>Corporate Budget Review Relates to operational adjustments to the Medium Term Financial Plan in respect of all services reflecting updated information in respect of salary grades and points, membership of the pension fund, employee working hours, income projections, previous financial year's outturn, business rates and contractual inflation costs in realigning budgets to actual need. (Council 21st November 2018)</p>	-877	-850	-816
7	<p>Capital Financing Costs Proposed that a maximum £706,000 contribution from the £1 million Redundancy Reserve is utilised during 2019/20 to finance the remaining revenue budget commitment net of capitalised element. (Council 20th February 2019)</p>	-78	0	0
	Total	-3,314	-1,650	-1,616

Capital Programme 2019/20 to 2022/23

Capital Expenditure	Revised		Revised		Revised		2022/23 £'000
	2019/20 £'000	2019/20 £'000	2020/21 £'000	2020/21 £'000	2021/22 £'000	2021/22 £'000	
Education	7,238	5,141	1,962	1,639	1,238	4,357	6,243
Physical Regeneration	1,350	1,950	1,150	1,150	1,000	1,000	1,000
Transport Infrastructure	1,352	1,907	1,325	1,375	1,169	1,219	1,310
Land and Buildings	1,250	1,702	150	1,450	150	150	0
Miscellaneous Schemes	2,653	3,617	2,616	3,416	1,616	2,416	2,416
Total	13,843	14,317	7,203	9,030	5,173	9,142	10,969

Funded by	Revised		Revised		Revised		2022/23 £'000
	2019/20 £'000	2019/20 £'000	2020/21 £'000	2020/21 £'000	2021/22 £'000	2021/22 £'000	
Borrowing	12,855	11,964	6,215	6,677	4,185	7,037	8,864
Capital Grants	988	1,753	988	1,753	988	1,505	1,505
Capital Receipts	0	600	0	600	0	600	600
Total	13,843	14,317	7,203	9,030	5,173	9,142	10,969

Indicative Capital Programme 2019/20 to 2022/23**21st Century Schools Band A**

Proposed Project Expenditure	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Afon Taf High School Remodelling	35	2,465	5,000	3,125	1,321	0	0	11,946
Ysgol Y Graig Primary School	0	0	0	67	58	718	6,029	6,872
Total	35	2,465	5,000	3,192	1,379	718	6,029	18,818

Funding Source	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Total Welsh Government	0	2,375	3,500	1,625	0	400	1,509	9,409
Merthyr Tydfil County Borough Council	35	90	1,500	1,567	1,379	318	4,520	9,409
Total	35	2,465	5,000	3,192	1,379	718	6,029	18,818

21st Century Schools Band B

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Total Expenditure	0	4,482	12,114	19,429	12,011	4,155	1,418	53,608
Funding Welsh Government	0	3,042	8,222	13,186	8,152	2,820	962	36,383
Funding Merthyr Tydfil County Borough Council	0	1,440	3,892	6,243	3,860	1,334	455	17,225
Total	0	4,482	12,114	19,429	12,012	4,154	1,417	53,608

Indicative Capital Programme 2019/20 to 2022/23**Summary Regeneration Programme 2019/20 to 2022/23**

Project	MTCBC £'000	External Funding £'000	Total £'000
Bus Station	650	10,000	10,650
Town Centre Regeneration Programme	780	10,500	11,280
Cyfarthfa Park Heritage	1,620	27,000	28,620
Vibrant and Viable Places / City Deal Programme	1,550	6,000	7,550
Taff Bargoed Regeneration Programme	500	900	1,400
Total	5,100	54,400	59,500

Indicative Capital Programme 2019/20 to 2022/23**Summary Riverside Programme 2019/20 to 2022/23**

Expenditure Profile / Funding Source	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
MTCBC	36	3,376	437	484	414	1,201	1,000	0	6,948
Welsh Government	5,700	1,000	0	0	0	0	0	0	6,700
Total	5,736	4,376	437	484	414	1,201	1,000	0	13,648

Capital Scheme Proposals

- 1 School Feasibility Studies – relates to scoping works in respect of several schools particularly to assess the future capital programme requirement in relation to the 21st Century Band B Programme.
- 2 Dowlais Learning Resource Base – Provision requires the purchase of a portable building, upgrading of toilet facilities within the existing school building and either the full replacement or significant refurbishment of the existing roof structure.
- 3 Cyfarthfa High School Gym Roof – The roof has reached the end of its useful life and despite recent remedial works a condition survey has recommended a complete roof replacement. Also, the gutters are rusted which could prove a health and safety hazard.
- 4 Gwaunfarren Roof – The roof is approaching the end of its useful life and will shortly require replacing
- 5 Troedyrhiw Roof – A new roof covering is required to the primary school as identified in a recent condition survey.
- 6 Ysgol Y Graig Infrastructure – In preparation for the new school in Cefn Coed it is vital that safe walking routes are provided for children together with road safety measures. The scheme will include new footways on Ponty Capel Road, a one way system, a 20mph zone and new crossing points also removal of the mini roundabout at the entrance to Maesgwynne. Failure to implement these measures prior to the school opening in April 2020 will increase the risk of accidents occurring to children travelling to and from the school.
- 7 Pont Cefn Road Bridge Concrete Repairs – The road bridge is Grade 2 listed and urgently requires concrete repairs to prevent further deterioration. It serves as the main access road to Cefn Coed and will be subject to increased traffic volumes following carriageway alterations as part of the duelling works on the Heads of the Valleys road.
- 8 Highways Congestion Improvement Schemes – An allocation to target Traffic congestion schemes.
- 9 Drainage Replacement Schemes – A number of culverts and watercourses within the borough are deteriorating and in need of urgent repair. Failure to do so could potentially result in flooding and increased future repair costs.
- 10 Edwardsville Tramroad Bridge Repair – The Bridge currently provides access to a number of properties and is part of the Trevithick trail. The spandrel walls above its

masonry arch are bulging severely and in need of repair to prevent closure and subsequent loss of access.

- 11 Quakers Yard Road Bridge Expansion Joints – The expansion joints of the bridge - which serves the A4054 Cardiff Road, are approaching the end of their useful life and are currently failing. If not replaced, speed ramps will need to be installed and speed restrictions imposed.
- 12 Harveys Bridge Quakers Yard Junction Improvements – The current junction is unsafe to all traffic users as vehicles have no alternative but to reverse into the oncoming traffic on the A4054 Cardiff Road. Since 2011 there has been seven reported collisions as a result. Junction improvements are required to ensure the safe movement of traffic and to prevent further accidents.
- 13 Highways Structural Maintenance – Annual commitment to tackle the backlog of required highway asset investment.
- 14 Traffic Light Replacement – A number of traffic light systems within the borough have exceeded their useful life (more than 25 years old) and are at risk of failure. Due to their age ongoing maintenance difficulties are being encountered as spare parts are difficult and in some instances impossible to obtain. Traffic light systems replacement is recommended.
- 15 Highways Drainage Replacement Schemes – Sections of the highways drainage system have collapsed or are otherwise compromised increasing the likelihood of localised flooding.
- 16 Safety Fence Replacement – A number of fences have been identified which have either collapsed or are safety noncompliant exposing the authority to potential third party risk.
- 17 Disabled Access Schemes – The provision of disabled access (drop-kerbs) is not part of the Highways maintenance function. A number of requests have been received from the public for such provision which due to current budget constraints can only be accommodated through the allocation of additional capital funding.
- 18 Streetlight Column Replacement – There are a total of 421 concrete columns within the borough that are beyond their useful serviceable life, and many of which are showing serious signs of degradation. Their replacement with aluminium columns is recommended to mitigate potential risk.
- 19 Cattle Grid Replacements – To provide a rolling replacement of Cattle grids within the borough, to avoid diversions for local residents and emergency services if cattle grids collapse.
- 20 Cefn Cemetery – A new plot of land has been provided by the Welsh Government in exchange for that given up to adjacent road works. As the land value of the plot provided

is greater than that lost, the Welsh Government will not provide any financial assistance towards the development of the land which is required before it is able to be brought into use.

- 21 Salt Barn at Pengarnddu – To provide a new covered grit/salt barn for the Highways Department at Pengarnddu.
- 22 Merthyr Leisure Trust Swimming Pool – Remedial works are required to the swimming pool tiling.
- 23 Depot Review – Unit 20 Works – Works are required to accommodate the relocation of the Waste / Recycling department currently occupying units 3 & 4 together with the Parks and Street Cleaning departments.
- 24 Cyfarthfa Splash Pad – Works are required to the surface at the Cyfarthfa Splash pad.
- 25 Pengarnddu – As site owner, MTCBC has an obligation to remove significant levels of contaminants left behind from operations conducted by the outgoing lessee. Removal is necessary prior to the disposal or alternative use of land.
- 26 Civic Centre Roof & Windows – Both roof and windows are approaching the end of their useful lifespan and issues of leakage a common occurrence.
- 27 Corporate Maintenance – commitment for general capital maintenance and improvement projects including emergency projects and statutory compliance.
- 28 Disabled Facilities Grants – a mandatory demand-led annual commitment provided for improvement works to disabled people’s homes.
- 29 Redundancy costs – The Council has the potential flexibility to utilise capital receipts to finance the revenue costs of service reform. Appendix 1 details an estimated amount of £600,000 new capital receipts available to finance redundancy costs.
- 30 Costs of Supporting Capital Expenditure – relates to professional costs contributing to the implementation of capital projects.
- 31 IT replacement Programme – Relates to the replacement of Windows 7 devices that have to be replaced to prevent a breach of the Public Sector Network code of connection and face disconnection.

Merthyr Tydfil County Borough Council

Capital Strategy Report 2019/20

1.0 Introduction

1.1 This capital strategy is a new report for 2019/20, giving 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.

2.0 Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

2.2 In 2019/20, the Council is planning capital expenditure of £25,226 as summarised below:

Table 1: Prudential Indicator Estimates of Capital Expenditure

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
General Fund Services	12,021	11,337	25,226	24,372	32,064
TOTAL	12,021	11,337	25,226	24,372	32,064

2.3 The main General Fund capital projects include:

- The 21st Century School Programme. For the final year of the Band A 21st Century Schools Programme a Council contribution of £4.520 million has been reflected with a match funding contribution of £1.509 million from Welsh Government. Band B totals £53.608 million over the lifetime of the programme (£36.025 million over the 4 years of the MTFP) with a total contribution of £17.224 million as match from the Council (£11.575 million over the first 4 years).

- The Authority's Physical Regeneration Programme for the Council whereby a financial commitment of £5.100 million from the Authority, commencing 2019/20, potentially secures for the Council additional capital finance of £54.400 million.

2.4 Service managers bid annually in October to include projects in the Council's capital programme. Bids are collated by Accountancy who calculate the financing cost (which can be nil if the project is fully externally financed). The final capital programme is then presented to Cabinet in February and to Council in February/March each year.

- The Council's capital programme was reported to Cabinet on 20th February 2019 and will be reported to Council on 4th March 2019.

2.5 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 and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital Financing

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
External Sources	2,771	4,961	12,662	17,095	24,427
Own Resources	1,656	1,120	600	600	600
Debt	7,594	5,256	11,964	6,677	7,037
TOTAL	12,021	11,337	25,226	24,372	32,064

2.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as the minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Own Resources	2,423	2,655	2,859	3,240	3,494
TOTAL	2,423	2,655	2,859	3,240	3,494

- The Council's full minimum revenue provision statement will be reported to Council on 4th March 2019.

2.7 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 CFR is expected to increase by £9 million during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator Estimates of Capital Financing Requirement

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
General Fund Services	101,541	104,693	113,798	117,235	120,778
TOTAL CFR	101,541	104,693	113,798	117,235	120,778

2.8 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an asset management plan in place. The plan sets out the vision for asset management where the property portfolio is aligned to corporate priorities and service requirements, appropriate investment is made in capital projects and the portfolio is efficiently maintained, is fit for purpose and meets health and safety requirements.

- The Council's asset management strategy was approved by Council on 26th March 2014 and was for the period 2014/2019.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council plans to receive £600,000 of capital receipts in the coming financial year as follows:

Table 5: Capital Receipts

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Asset sales	1,353	859	600	600	600
TOTAL	1,353	859	600	600	600

3.0 Treasury Management

3.1 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 is typically cash rich in the short-term as revenue income is received before

it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has £102 million borrowing at an average interest rate of 4.5% and £13 m treasury investments at an average rate of 0.72% (as at December 2018).

- 3.2 **Borrowing strategy:** 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 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

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

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Debt	96,135	100,615	106,025	110,382	115,190
Capital Financing Requirement	101,541	104,693	113,798	117,235	120,778

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.

- 3.3 **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 that cash and investment balances are kept to a minimum level of £10 m at each year-end. This benchmark is currently projected at £103 m and is forecast to rise to £121 m over the next three years.

Table 7: Borrowing and the Liability Benchmark

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Outstanding Net Borrowing	82,635	90,615	96,025	100,382	105,190
Liability Benchmark	94,720	102,704	113,470	117,285	120,984

3.4 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2018/19 Limit £'000	2019/20 Limit £'000	2020/21 Limit £'000	2021/22 Limit £'000
Authorised Limit	128,667	127,648	132,440	137,729
Operational Boundary	117,211	116,045	120,402	125,210

- Further details on borrowing are included within the treasury management strategy statement to be reported to Council on 4th March 2019.

3.5 **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 policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. 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 and building societies, to minimise the risk of loss.

Table 9: Treasury management investments

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Investments	13,500	10,000	10,000	10,000	10,000

- Further details on investments are included within the treasury management strategy statement to be reported to Council on 4th March 2019.

4.0 Investments for Service Purposes

The Council can make investments to assist local public services, including making loans to local service providers to promote economic growth. In light of the public service

objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity and outturn position are presented to Council.

5.0 Commercial Activities

With central government financial support for local public services declining, the Council can invest in commercial property purely or mainly for financial gain.

The Council does not currently invest in any commercial activities.

6.0 Liabilities

In addition to debt as at 31st March 2018 of £96.135 m as detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £189.315m). It has also set aside £3.265 m to cover risks of provisions. The Council is also at risk of having to pay for contingent liabilities however the Council is not required to aside any money for these liabilities

- Further details on liabilities and guarantees are on pages 64 and 89 of the 2017/18 statement of accounts, reported to Council on 26th September 2018.

Governance: Decisions on incurring new discretionary liabilities are taken by service managers/Corporate Management Team in consultation with Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by the finance section.

7.0 Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, 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; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Financing Costs (£'000)	7,189	7,036	7,417	7,993	8,149
Proportion of net revenue stream	6.3%	6.0%	6.2%	6.6%	6.7%

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 plus into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

8.0 **Knowledge and Skills**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with 27 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA.

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

Merthyr Tydfil County Borough Council
Treasury Management Strategy Statement 2019/20

1.0 Introduction

- 1.1 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.
- 1.2 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 March 2010 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.
- 1.3 **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.

2.0 External Context

Appendix 1 outlines an Economic Commentary for the 2018/19 financial year.

3.0 Local Context

- 3.1 On 31st December 2018, the Authority held £102 m of borrowing and £13 m of investments. This is set out in further detail at Appendix 2. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Capital Financing Requirement	101,541	104,693	113,798	117,235	120,778
Less External Borrowing**	(98,167)	(64,368)	(61,181)	(57,994)	(54,807)
Less usable reserves	(24,212)	(19,380)	(17,719)	(17,341)	(17,185)
Plus working capital	7,391	7,391	7,391	7,391	7,391
Investments (or New Borrowing)	13,447	(28,336)	(42,289)	(49,291)	(56,177)

** shows only loans to which the Authority is committed and excludes optional refinancing.

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 an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £56 m over the forecast period.

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 2019/20.

- 3.2 **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 2: Liability benchmark

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Capital Financing Requirement	101,541	104,693	113,798	117,235	120,778
Less usable reserves	(24,212)	(19,380)	(17,719)	(17,341)	(17,185)
Plus working capital	7,391	7,391	7,391	7,391	7,391
Plus Minimum Investments	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	94,720	102,704	113,470	117,285	120,984

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing, the minimum revenue provision on new capital expenditure is based on asset life and changes in reserves in line with planned utilisation. This is shown in the chart below:

Table 3: Liability Benchmark Chart

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Debt Funded Capital Expenditure	3,384	9,309	3,818	3,797
MRP	(232)	(204)	(381)	(254)
Maturing Loans	33,799	3,187	3,187	3,187
Changes in reserves	4,832	1,661	378	156
Changes in working capital	0	0	0	0
Net Cash Outflow / (Inflow)	41,783	13,953	7,002	6,886

4.0 **Borrowing Strategy**

- 4.1 The Authority currently holds £102 million of loans (as at 31st December 2018), an increase of £6 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow £103 million in 2019/20. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £128 million.
- 4.2 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.
- 4.3 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 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

- Public Works Loan Board (PWLB) and any successor body
- 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

4.5 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

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.6 **LOBOs:** The Authority holds £12m 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. The full £12 million of these LOBOs have options, 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.

4.7 **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.

4.8 **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.

5.0 Investment Strategy

- 5.1 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 investment balance has ranged between £5 million and £13.5 million, and similar levels are expected to be maintained in the forthcoming year.
- 5.2 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.
- 5.3 If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could 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. This situation already exists in many other European countries. 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.
- 5.4 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 2019/20 including Money Market Funds. This is especially the case for the estimated £10 m that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank and building society deposits, and in government deposits. This diversification will represent a change in strategy over the coming year.
- 5.5 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.
- 5.6 The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Institution	Maximum Loan £'000
UK Local Authorities	5,000
UK Bank or UK Rated Building Society	5,000
Barclays Bank (The Authorities Banker)	5,000
Money Market Funds	5,000 per fund or trust
UK Government	As required

Investment	Security	Use	Maximum Investment Period
Debt Management Agency Deposit Facility	High	In-house	365 days
Term deposits - UK Local Authorities	High although LA's not credit rated	In-house	365 days
Term Deposits - UK Banks and Rated Building Societies	All UK Banks and Rated UK Building Societies	In-house	365 days

5.7 **Banks 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.

5.8 **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.

5.9 **Pooled funds:** Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

6.0 Treasury Management Indicators

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

6.2 **Interest rate exposures:** This indicator is set to provide an indication of the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit £'000
Upper limit on one year revenue impact of a 1% <u>rise</u> in interest rates	345

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

6.3 **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 all borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 Months	80%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	40%	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.

6.4 **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:

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Principal Sums Invested for Periods longer than 365 days	0	0	0

7.0 **Related Matters**

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

7.2 **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.

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

7.4 **Government Guidance:** Further matters required by the WG Guidance are included in Appendix 3.

8.0 **Financial Implications**

The budget for investment income in 2019/20 is £156,000. The budget for debt interest paid in 2019/20 is £4.526 million. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9.0 **Other Options Considered**

9.1 The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, 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

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.21%, and that new long-term loans will be borrowed at an average rate of 2.79%.

Existing Investment & Debt Portfolio Position

Appendix 2

Description	31.12.18 Actual Debt Portfolio £000	31.12.18 Average Rate %
External Borrowing		
Public Works Loan Board Loans	50,860	7.32
Local Authorities	39,000	0.81
LOBO Loans	12,000	4.50
Banks and Building Societies	0	0.00
Total Gross External Debt	101,860	4.50
Treasury Investments		
Banks and Building Societies	6,000	0.82
Cash and Bank Equivalents	2,413	0.55
Local Authorities	5,000	0.95
Total Treasury Investments	13,413	0.72

- 1.0 **Specified investments:** The WG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - 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.

- 2.0 **Non-specified investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies nor any defined as capital expenditure. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 1 below.

Table 1: Non-specified investment limits

	Cash limit
Total long-term investments	£0m
Total investments without credit ratings or rated below [A-] (except the UK Government and UK local authorities)	£25m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£0m
Total non-specified investments	£25m

- 3.0 **Investment training:** The needs of the Authority’s treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend training courses, seminars, meetings and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 4.0 **Investment advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital

finance issues. The quality of this service is controlled by client meetings and the contract is reviewed every three to five years.

- 5.0 **Investment of money borrowed in advance of need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £128 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.