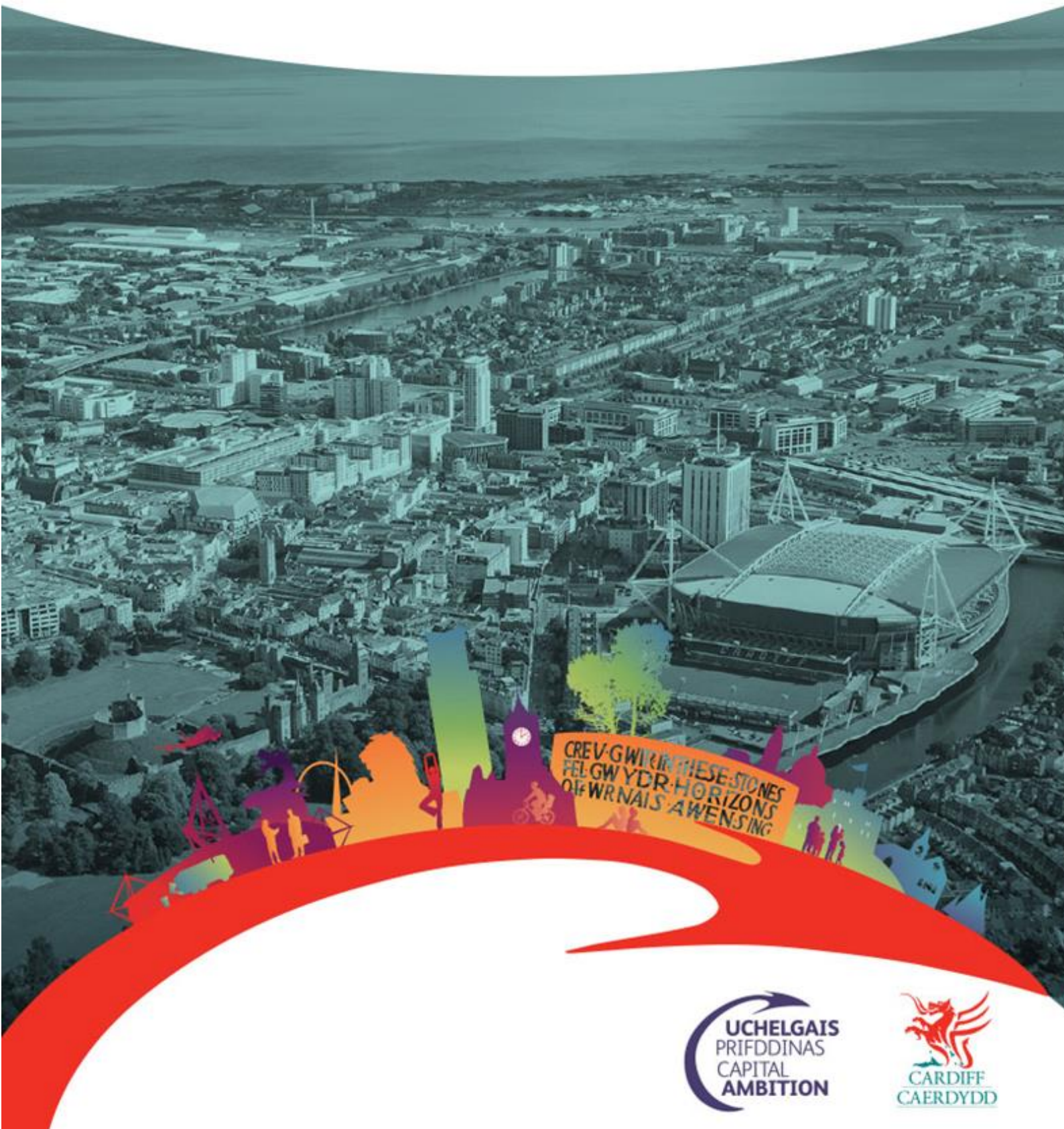


Capital Strategy 2019/20

Cardiff Council



Delivering Capital Ambition

In July 2017, the Council's Administration published Capital Ambition, a policy programme which sets out a series of commitments for Cardiff.

These commitments prioritise accelerating economic growth, creating opportunities for local people and communities, effectively managing growth and transforming public services to ensure their long term sustainability.

Progressing this ambitious agenda will require capital investment if the administration is to deliver on its major commitments. This would include investment in new schools and in modernising school buildings, delivering a significant house building programme and in enabling the continued regeneration of the city's business and transport infrastructure.

It is therefore crucial that, when long term investment decisions are undertaken to deliver for Cardiff, decision makers can rely on clear and informed information. This would include:

- A long term view of capital expenditure plans and any financial risks to which the Council is exposed.
- Ensuring due regard to the long term financing, affordability implications and potential risks.
- A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications.

The Capital Strategy will therefore continue to help support informed decision making in the Delivery of Capital Ambition.



Strategic Context

As the capital city of Wales, Cardiff is the commercial, cultural and retail driver of Wales. It is one of the fastest growing cities in the UK, with population growth projected to increase by 20% between 2017 and 2037. This is an additional 73,000 people meaning that population growth in Cardiff will exceed the estimated population growth of every other local authority in Wales.

The city's economy is also growing, jobs and businesses are being created, unemployment is at its lowest level this decade and visitor numbers are increasing every year.

Whilst this growth brings opportunities, it also brings challenges. Rapid population growth will require more school placements and social care provision whilst placing pressure on housing and the city's transport infrastructure. For example, as well as those living in the city, more than 80,000 people, over one third of the city's workforce, commute into Cardiff every day from across the region.

Capital Ambition identifies the opportunities facing the city and sets out the response to these challenges. This is not just a consideration of how we manage decline in a period of austerity, but it is about investing in future economic growth and development, prioritising investment in schools, affordable housing, tackling homelessness, and protecting the city's most vulnerable people. It sets out the approach for tackling congestion and air pollution, improving recycling rates and keeping our streets clean, along with a series of commitments to create opportunities for local people and addressing inequality.

Where Capital Investment is needed to deliver the administration's priorities, in responding to these issues, the Capital Strategy is a framework that the Council can rely on to develop a clear, consistent and informed process in undertaking capital investment decisions.

Working for the future

- Support delivery of the Local Development Plan and measures to bring forward associated infrastructure requirements
- Renewable Energy Strategy
- Continue improvements in recycling rates including a new household waste recycling and re-use centre
- A commercial and self sustaining approach to parks and usable open space
- Transport Strategy – Enhancing public transport infrastructure; Cycling Strategy including superhighways; Active Travel; extending enforcement of Moving Traffic and Parking Offences
- Clean Air Strategy
- Smart City approaches to managing infrastructure
- Increasing burial space

Working for public services

- Digital Strategy including Connected Citizens
- Integrating public services
- Keeping our streets clean
- Hitting sustainable transport targets
- Building strong partnerships at the local, regional and national level

Capital Ambition

Working for Cardiff

- Improving and expanding schools at the heart of communities
- Investment in local communities
- Support for independent living
- Investment Property Strategy
- Fewer but better property assets
- Maintaining Welsh Housing Quality Standards for existing stock and increasing the supply of affordable housing including new council housing
- Older Persons Housing Strategy
- Begin to address historic underinvestment in roads and footways
- Driving the economy forward, creating more and better paid jobs
- Specialist dementia services and day opportunities for older people

Working for Wales

- Broadening the economic power of the City Region moving beyond City Deal
- Grow City Centre as a location for business and investment
- Regeneration of Dumballs Road and refreshed vision for Cardiff Bay as a leisure destination
- New industrial strategy for East Cardiff aligned to completion of the Eastern Bay Link
- Deliver a new multi purpose indoor arena
- New transport interchange at the heart of the Cardiff Metro and support delivery of the first phase of the Metro



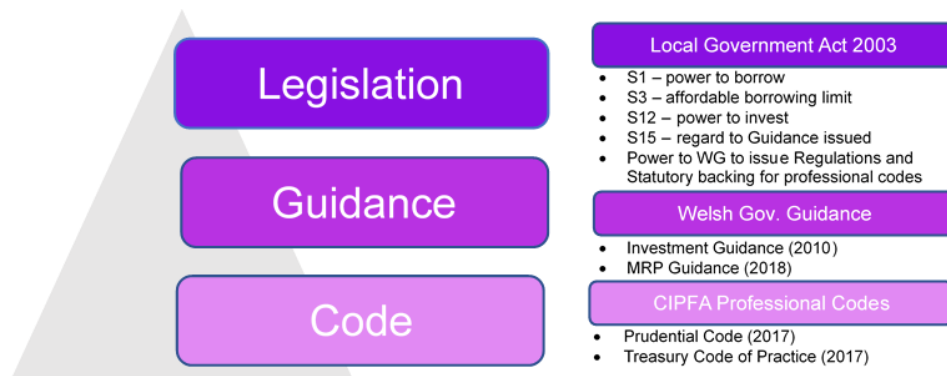
Capital Strategy Framework

The Capital Strategy is an integral part of the Council’s Strategic and Financial Planning Framework.



In 2004, local authorities were provided with the flexibility to make their own capital investment decisions. Legislation, guidance and professional codes of practice were introduced to support decision making and

ensure investment and borrowing is Prudent, Sustainable and Affordable. The Council has complied with these principles since their introduction and in various updates.



The Capital Strategy sets out the Council’s approach to:

- working with partners
- asset management planning
- risk appetite
- governance and decision making
- funding the strategy
- managing the borrowing requirement
- affordability.

The remainder of this strategy considers these in more detail. The Strategy forms an integral part of the Budget report and it is recognised that there are various strategy developments that need to take place over the medium term as part of new regulatory requirements.

The Corporate Director Resources is required to report, in the Budget Report, on the deliverability, affordability and risk associated with the Capital Strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.



Working with Partners

Delivering investment across the City and meeting the Council's ambitions in supporting its role as the economic driver for the wider region and Welsh context needs a strategic approach with the private and public sector. This is particularly relevant given the financial challenges faced by the Council.

The significant re-invention of the City over the years has been driven by the private sector and without this much of the investment seen over the past few years would not have happened.

The Council works closely with regional local authority partners in the Cardiff City region, with partners such as Newport and Bristol in the South West and also as part of the UK Core Cities Group nationally. Within the City the Council has significant partnerships with other public sector bodies via informal or formal boards such as the Public Sector Service Board, Registered Social Housing Landlords, Universities and Colleges to support the delivery of services for its residents, communities and businesses.

The Council will continue to work with Welsh Government to align key priorities and to make a case for a much longer term and sustained approach to capital investment that not only support the City's vital infrastructure, but also projects that can make a stepped change in helping to drive the city, region and nation forward.

The Council will continue to use its enabling role to harness skills and private funding, in order to take forward capital investment to deliver improvements and inclusive growth which would not otherwise be deliverable or affordable. It will set out its vision and co-ordinate activity between business and government bodies to develop a more productive and innovative platform for investment in the City.



Asset Management Planning

The Council has responsibility for assets used in service delivery including property, highway infrastructure (roads, footpaths, structures, lighting) and Council dwellings. It is essential to understand the need, utilisation, condition, the investment and operating cost requirements of assets, whether owned or leased.

The Council's historic retained interests in land assets in various parts of the City has been an enabler in its ability to support development of key capital projects in the City. The Council also has a track record of acquiring significant assets on the basis of future regeneration projects or to secure strategic options. It is recognised that the acquisition of new assets such as land could gain or lose value in the intervening period. However the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

When prioritising investment it is essential to understand the long term cost of maintaining and operating existing assets and their fitness for purpose, having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses. The backlog of maintenance in some key assets is recognised and alternative approaches to longer term solutions will be considered to address the risks this poses rather than continued investment by the Council in the same assets. This is neither an effective asset management approach nor affordable in the long term. These will be considerations in key assets such as schools and administrative buildings required for the long term.

Approved Asset Management Plans are in place for property assets that demonstrate the Council's stewardship of assets. A disposal strategy is also to be put in place to relinquish or find alternative beneficial uses for assets deemed surplus to requirements. This includes using property effectively across the Council by using suitable sites for the building of affordable Council housing.

The Council's Asset Management Board, which is chaired by the Chief Executive and includes service directors, aims to provide

assurance to Cabinet by embedding strategic asset management activity as a corporate activity, not just an activity undertaken by property or transport teams.

In line with best practice, Cabinet will consider development of plans for Highways and other infrastructure assets during 2019/20 and implement Property Asset Management Plans already developed. The Council's approach to asset management and stewardship of assets will be supported by targeted reviews to support the cohesiveness of asset management practices across the Council.



Risk Appetite

In undertaking complex projects decision making will continue to be supported by robust business cases in line with best practice covering a strategic, economic, financial, commercial and management case. For large complex projects, professional external advice and services would be sourced to undertake due diligence to understand risks and inform decision making.

Capital investment can be broadly split into three types:

1. Investment in **existing assets** to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs.
2. Investment in **development projects to meet strategic aims** such as new housing, economic benefits and delivery of other strategies outlined above as part of Capital Ambition. This could include loans or financial guarantees towards capital expenditure incurred by external organisations, or other delivery structures where the Council retains an interest.
3. Investment purely to maximise financial return on assets and generate revenue income. Examples of this are undertaking borrowing to purchase investment property, or provide loans to others.

In respect of 1 and 2, the Council recognises that achieving these aims will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however taking the City forward is not just a consideration of how we manage decline. Capital investment funded by borrowing will be undertaken in priority areas to meet Capital Ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases and risk management and monitoring.

In respect of 3, the Capital Strategy does not include proposals to acquire investment property or other non-treasury assets solely to make a financial return. Whilst the Council does generate circa £3.8 million income from commercial investment property landholdings,

these are from historic interests of land in the City and are managed in accordance with an Investment Property Strategy approved by Cabinet. The primary aim of this strategy is to review existing land holdings, maximise yield from the existing estate, remove long term liabilities, and secure future sustainable income streams by acquiring new sites that would support economic regeneration in the City. Acquisitions are paid for from the disposal proceeds of existing investment property which is valued at circa £72 million.

Where investment property is being acquired by additional borrowing, this would only be undertaken after:

- Cabinet approval of a robust business case supported by independent advice.
- Consideration of the legal basis on which the expenditure is being incurred.
- Affordability and risk assessment of such expenditure over the longer term.

It is recognised however that there may be properties that become investment properties, arising from development projects where the ultimate aim is economic development and regeneration.

Robust business cases or viability assessments will be required for all expenditure over £1 million or where there is deemed to be a significant financial or operational risk exposure. These may be reviewed by specific boards such as those for schools organisation planning or housing.

The Council's Investment Review Board is chaired by the Corporate Director Resources. The Board will continue to provide assurance to Cabinet by reviewing business cases in respect of delivery of change initiatives as well as capital projects proposed such as invest to save/earn schemes. It will also support the development of further Council guidance in respect of business cases, to continue to improve the Council's approach and support informed decision making.

The effective monitoring, management and mitigation of risks is a key part of the Capital Strategy and a risk register is developed as part of the Strategy.



Governance and Decision Making

The Council has robust processes in place to approve, manage and monitor capital projects arising from the Capital Strategy.

Prioritisation, Capacity and Skills

Following consideration of resources and affordability, capital expenditure requirements are prioritised on the following basis:

- Firstly, to meet expenditure on Annual Sum requirements, to meet expenditure on mandatory grants and for the renewal of existing assets such as property, parks and highways.
- Secondly, to meet expenditure on schemes previously approved by Cabinet which have been committed to, either contractually or in principal in previous years, and where following a review these are still deemed essential to proceed.
- Thirdly, new expenditure approved by Cabinet on development schemes to be taken forward. These would be proposed after consideration of:
 - Link to strategic objectives.
 - Risk of not undertaking the expenditure.
 - Statutory / legislative requirements.
 - Financial implications and affordability.
 - Review of relevant business cases.

To support prioritisation and to avoid slippage and potentially unanticipated additional costs, the Council will need to ensure access to sufficient skills and capacity both within the Council and externally in order to deliver the investment programme. Such capacity could be project management and development skills; technical and design skills, knowledge, availability of contractors and their capacity as well as wider market factors.

Defining Capital Expenditure

The Council has determined criteria and eligibility for capitalisation and it is important, despite pressures on revenue budgets, that only acceptable costs are charged as capital expenditure. Any internal recharges of costs

should be evidence based and regularly reviewed. Advice would need to be sought where relevant and eligibility is reviewed by Wales Audit Office as part of the external audit of the Council's accounts and external grants.

Constitution, Procurement and Value for Money

The Council's Procurement Strategy ensures that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the council's priority outcomes. The Strategy helps to ensure that procurement becomes sufficiently flexible and agile to support the Council to operate in an efficient, compliant and ethical manner to deliver capital projects on time, on budget and to specified quality standards.

Procurement considers third party spend across budgets and taking opportunities to consolidate and aggregate spend and achieve economies of scale are a key focus.

Regional, joint and framework options are utilised where they already exist or are considered for creation where value for money, an appropriate structure and compliance with the Council's Procurement Strategy can be demonstrated.

The Council's process and authority for the acquisition and disposal of land or property is also set out in the Constitution. Transactions over £1 million are required to be approved by Cabinet as part of a business case and verified by an independent valuation.

Approval, Monitoring and Reporting the Capital Programme

The Capital Strategy will inform the Council's Capital Programme which is an integrated part of the Council's Financial Planning Framework and Treasury Management Strategy. This integration is one of the reasons why it is deemed that full Council should continue to consider and approve the affordability of the Capital Strategy and Programme as part of the Council's budget proposals recommended by Cabinet.



Governance and Decision Making

Council approves the capital investment programme having consideration of the requirements of the Prudential Code and indicators highlighting the impact of capital decisions on the revenue budget and affordability, prudence and sustainability.

Directorates are responsible for monitoring capital schemes and the reporting of progress in delivering the Capital Programme periodically to Cabinet as part of the Council's Budget Monitoring and final outturn reports. The reports include:

- forecast expenditure during the year on schemes
- the stage at which projects are in terms of timescale and any issues resulting in delay
- changes in funding available for schemes
- any cost increases and how they are being managed
- variations or other changes required in accordance with the Council's Constitution.

Prior to presentation at Cabinet, monitoring reports on key schemes are provided to the relevant Cabinet members as well as to Asset Management Board, highlighting any key issues and risks in delivery of the programme.



Funding the Strategy

The Council has several funding streams available to support capital investment. There are currently no nationally imposed restrictions to the quantum of borrowing that can be undertaken. The Council approves its own affordable borrowing limit as part of the Local Government Act 2003 and this is set at a level consistent with the programme of capital expenditure proposed.

Cash Resources to pay for Capital Investment

These include:

- Non ring-fenced grants i.e. for use on Council determined priorities.
- Ring-fenced grants to achieve a particular outcome and therefore with restricted use as specified by the funder.
- External Contributions from planning agreements or other sources. Large housing development sites as part of the Council's Local Development Plan will also impact on the city's infrastructure. Developer agreements either in place or to be determined will aim to mitigate impacts in respect of affordable housing, school capacity and public transport infrastructure. The Community Infrastructure Levy (CIL) regulations came into force in April 2010 and sit alongside the existing Section 106 (S106) process. The Council has consulted in the charging schedule but progression onto the next stage depends on the possible devolution of CIL to the Welsh Government.
- Revenue Contributions and earmarked reserves.
- Capital Receipts. The actual realisation and timing of capital receipts can be uncertain. The Council's approach to receipts is as follows:
 - Prioritise receipts required to meet the balance of the £40 million target for General Fund Capital Receipts (net of fees), assumed in the 2018/19 – 2022/23 Capital Programme.

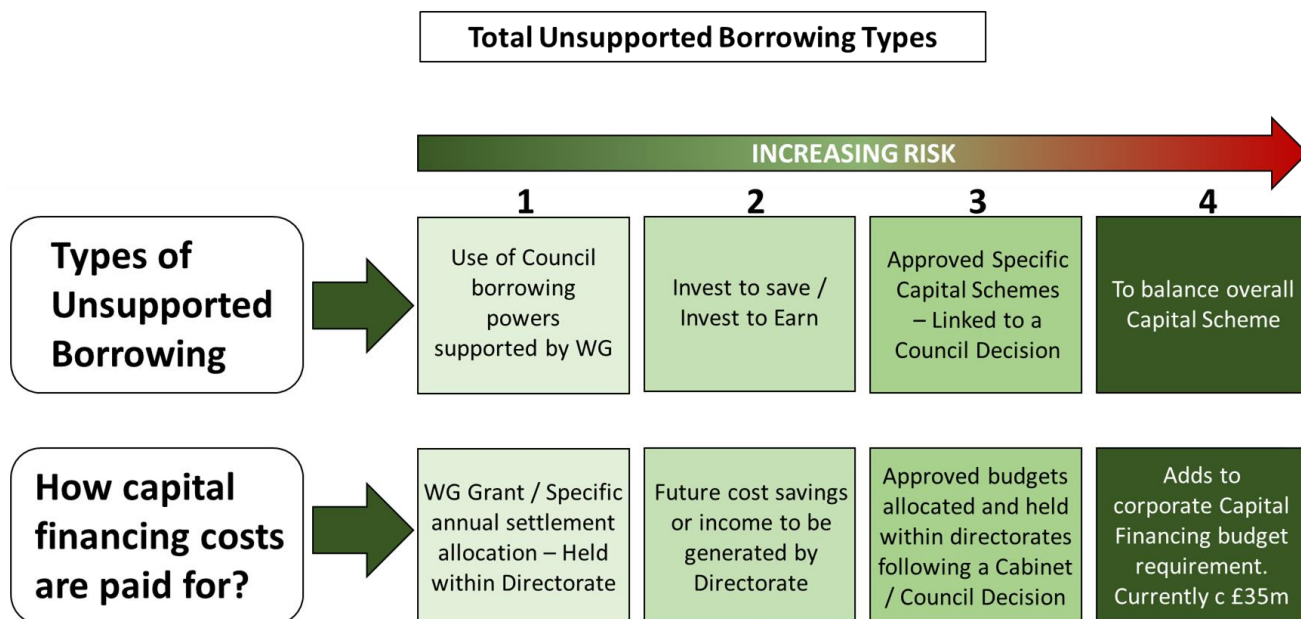
- Use of receipts in excess of this target to be considered to reduce the level of debt.
- Where an asset has been funded specifically from prudential borrowing, any receipt arising from it would be utilised to reduce expenditure not yet paid for.
- To limit the earmarking of capital receipts only for capital expenditure essential to secure a disposal, to meet the terms and conditions of a grant, where approved by Cabinet as ring-fenced for specific projects or strategies, or where required to be ring-fenced by legislation.

Borrowing to pay for Capital Investment

There are two main types of borrowing to pay for capital investment which forms part of the Council's borrowing requirement which is managed as part of the Treasury Management Strategy:

- 'Supported Borrowing' - costs of servicing are included within the annual Revenue Support Grant (RSG) the Council receives from Welsh Government.
- 'Unsupported Borrowing' - costs of servicing to be met from Council Tax, rent, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown overleaf.





Welsh Government itself has been utilising and considering different options to meet the cost of investment, primarily by utilising the ability of local authorities to borrow.

This includes schemes such as:

- Local Government Borrowing Initiative for Highways and Schools.
- Providing interest free loans or repayable grants using Financial Flexibility funding available to them for a range of schemes. Whilst welcome, where there is linkage to the strategic aims of Cardiff Council, these present an ongoing risk to the Council as all risk of expenditure remains with the Council and WG require all funding to be paid back in full in future years.

The Council will consider the risks and benefits of new school investment proposed by Welsh Government as part of its Mutual Investment Model (MIM) for 21st Century Schools. This is where new schools would be built under a Public Private Partnership arrangement and Councils will be required to pay a revenue charge per annum for use of the asset over a defined period to which the Welsh Government would contribute a fixed percentage.

The Council will also explore with Welsh Government the development of a Tax Increment Finance pilot, a means of unlocking development value through investing in infrastructure, assumed to be paid for from anticipated future business rates.

In assessing such proposals and any alternative income sources proposed to pay for investment to be paid for by borrowing, the long term risks and responsibility for them would need to be clearly understood in conjunction with lessons learnt where similar schemes have been introduced elsewhere.

Leasing

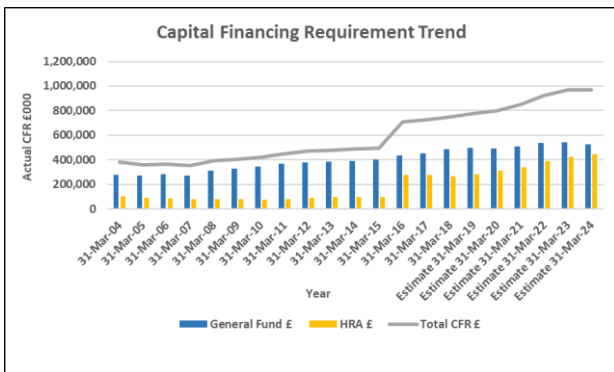
Lease obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning and delivering such assets itself.



Managing the Borrowing Requirement

The Council's Treasury Management Strategy considers how the cash requirements arising from the Council's Capital Programme and Strategy are managed by external borrowing and the timing of any borrowing. This is delegated to the Corporate Director Resources, in line with the Treasury Management Policy approved by Council, with Audit Committee responsible for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.

The Council's Capital Financing Requirements represent the need for the Council to borrow and future projections are shown in the chart below.



The Council's borrowing requirement includes the Housing Revenue Account, which includes the £187 million payment made to HM Treasury to exit the subsidy system in 2015/16 and also future expenditure to create new Council owned affordable housing from various measures to be set out in the Housing Plan.

The Public Works Loan Board (PWLB) continues to be the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

The Council can consider various debt instruments. Best treasury management practice is that loans are not taken on a project by project basis. However alternative options could be considered for specific council projects where relevant such as leasing and bonds where these would allow financing requirements to be met in an efficient manner. Advantages and disadvantages of such products would need to be considered including risks, track record and cost of issuance and supported by external advice in respect of different options.



Affordability

Capital investment undertaken historically, and the proposed Capital Programme, form an integral part of the Council's Revenue budget and Medium Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating / maintaining new assets.
- The capital financing costs of servicing any borrowing required to pay for investment (Interest and the Council's approach to making prudent provision for repayment of capital investment paid for by borrowing).
- The revenue costs of preparing and delivering projects.
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all costs of that investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents of the City.

Where capital investment has been undertaken by borrowing, the Council is required to spread the cost of that investment over future years revenue budgets. The Policy on Prudent Provision for the Repayment of Capital Expenditure is approved as part of the Budget Proposals each year, setting out the Council's approach. The approach will be tested and reviewed during 2019/20 in advance of the decision making process for subsequent years.

It is recognised that the Council cannot afford to do everything, however where revenue resources are deemed available to increase the level of council borrowing, where it needs to do so, this will be considered. The Council's approach to affordability of its capital financing budgets in the medium term are as follows:

- General Fund – Additional investment funded by borrowing over the medium term to be minimised unless approved on an invest to save / invest to earn basis.
- Housing Revenue Account - Increasing over the medium term primarily as a result of implementing Capital Ambition target of new affordable housing. Future rent policy will be key to affordability.
- Strategic and major development projects – To create an affordable revenue budget envelope to cover capital financing costs arising from approved business cases.

Prudential indicators and financial resilience indicators included in the Budget Report will be considered in taking a longer term view of affordability, prudence and sustainability. This will require future capital strategies to develop a longer term approach to commitments.



Future Years Strategy Development

The development of a Capital Strategy is a new requirement in Wales and it is recognised some areas will need to develop over time. A number of potential improvement actions will be undertaken between April 2019 and March 2021 as part of a process of continuous improvement to support members in their decision making.

Suggested development actions include:

- Asset management planning to inform decision making and risk.
- Longer term horizon (10-15 years) for capital planning and financial impact of major development projects.
- Business Case and Viability best practice. Review approach ensuring they adequately inform decision making.

- Clear Scope and Post Project evaluation of schemes.
- City-wide approach to investment in the City.
- Self-assessment of skills and knowledge to inform capacity to deliver.

Progress on meeting these improvements will be reviewed by the Corporate Director Resources as part of a review to be commissioned using internal and external advice.



References

Key Documents

Capital Ambition (Cabinet July 2017)

Investment Property Strategy (Cabinet November 2016)

Corporate Land and Property Asset Management Plan (Cabinet February 2018)

Treasury Management Strategy (Cabinet February 2019)

Image Sources (in order of appearance)

Cover – city aerial view

Ysgol Gynradd Glan Ceubal – 21st Century Schools

Central Square - Artistic impression

Maelfa Tower Block refurbishment and regeneration scheme

Grand Avenue Day Centre

Willowbrook West St Mellons - Cardiff Living housing project

Strategic cycle scheme Senghennydd Road – Artistic impression

