

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CORPORATE OVERVIEW AND SCRUTINY COMMITTEE

14 JANUARY 2021

REPORT OF THE INTERIM CHIEF OFFICER - FINANCE, PERFORMANCE AND CHANGE

CAPITAL STRATEGY 2021-22 TO 2030-31

1. Purpose of report

- 1.1 The purpose of this report is to present to Corporate Overview and Scrutiny Committee the draft Capital Strategy 2021-22 to 2030-31, which includes the Prudential Indicators against which the Council measures itself during the financial year (**Appendix A**).

2. Connections to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions for all people in the county borough.
2. **Helping people and communities to be more healthy and resilient** – taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help deliver the Council's well-being objectives.

- 2.2 Capital investment in the Council's assets is a key factor in meeting the Council's well-being objectives as set out in the Council's Corporate Plan.

3. Background

- 3.1 Control on capital expenditure and investment is governed by legislation. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended, provide the regulatory framework for accounting practices to be followed, and contain detailed provisions for the capital finance and accounting controls, including the rules on the use of capital receipts and what is to be treated as capital expenditure. They modify accounting practice in various ways to prevent adverse impacts on authorities' revenue resources.

- 3.2 In December 2017, CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities. The revised Prudential Code placed a requirement on local authorities to determine a Capital Strategy, to be approved by full Council, which demonstrates that the authority takes capital expenditure and investment decisions in

line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Strategy needs to set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

- 3.3 The Strategy should demonstrate how the Council ensures that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, the Strategy will need to include the prescribed Prudential Indicators for a three year rolling period. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability.

4. Current situation / proposal

- 4.1 The principles within the Capital Strategy have been applied to the allocation of capital resources and schemes within the Capital Programme included within the Medium Term Financial Strategy (MTFS). This will be approved by Council before the start of the financial year in accordance with the Constitution. Following approval, any schemes for which external funding has been approved will be added to the capital programme once the funding has been accepted and included in the next capital programme report to Council. Urgent expenditure not included in any budget approval, which needs to be agreed prior to the next meeting of Council, may only be incurred with the approval of the Chief Finance Officer.

- 4.2 The draft Capital Strategy and associated schedules are contained at **Appendix A**. The financial information included within the Capital Strategy will be updated when the Council's budgets are finalised for the Medium Term Financial Strategy. Any comments from the Committee will be considered when the Capital Strategy is finalised for Cabinet to consider at its meeting on 23 February 2021, and for Council to approve on 24 February 2021.

- 4.3 It confirms the Council's compliance with the Prudential Code for Capital Finance in Local Authorities. It sets out the guiding principles for capital decisions in respect of:-
Principle 1: Focussing capital investment on delivery of the Council's well-being objectives and priorities

Principle 2: Ensuring strong governance over decision-making

Principle 3: Ensuring that capital plans are affordable, sustainable and prudent

Principle 4: Maximising and promoting the best use of available funds

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

- Capital expenditure and investment plans
- Prudential Indicators
- External debt
- Treasury Management

It reports on the delivery, affordability and risks associated with the long-term context in which capital expenditure and investment decisions are made.

- 4.5 Whilst much of the content of the Strategy is similar to previous years, there are a number of changes which need highlighting:

4.5.1 Accounting for Leases

Changes to Accounting for Leases will have an impact on the Capital Strategy as current operating leases, where costs are currently charged to revenue, will have to be brought onto the balance sheet as a right of use asset, which will increase the Council's capital financing requirement. The implementation of these changes has been delayed to the 2022-23 financial year, and consequently the impact of these changes is still under review. The Capital Strategy will need to be amended once these impacts are known, in advance of Council formally approving the 2022-23 Strategy. This is detailed within section 2.1 of the Capital Strategy.

4.5.2 Borrowing for Commercial Activities

An important change to the strategy relates to changes to the lending terms of the PWLB in respect of borrowing by local authorities for commercial activities, as set out in section 3.4 of the Strategy. As a condition of borrowing from the PWLB, local authorities will have to confirm that there is no intention to buy investment assets primarily for yield in the current, or next two financial years, irrespective of how that purchase will be financed. This may act as a barrier to investing in commercial assets for return as other elements of the capital programme will require borrowing in order to deliver a number of schemes, and this would become prohibitive.

4.5.3 Recommendations from Internal Audit

Following an internal audit review of capital expenditure and feasibility studies, the recommendation to require a detailed feasibility assessment of capital projects has been added at Section 5.0, and the need for a post project evaluation to learn from best practice is included at section 5.3.

5. Effect on policy framework and procedure rules

- 5.1 The Council's Financial Procedure Rules reflect the duty to produce a Capital Strategy at the start of each financial year, and to report quarterly to Cabinet with an update on the Capital Strategy and the Prudential Indicators. The Strategy demonstrates that capital expenditure and investment decisions are in line with service objectives, and properly take account of stewardship, value for money, prudence, sustainability and affordability.

6. Equality Impact Assessment

- 6.1 Projects within the Capital Strategy will be subject to the preparation of separate Equality Impact Assessments before proceeding.

7. Well-being of Future Generations (Wales) Act 2015 implications

- 7.1 In terms of meeting the 5 ways of working within the Act the Capital Strategy sets out the following:

1. **Long term:** the strategy is a 10 year strategy and considers the need for capital investment over the medium to long term.

2. **Prevention:** the strategy seeks to ensure that assets and capital investment are fit for the future, to enable the Council to successfully deliver its services for the benefit of its communities.
3. **Integration:** the capital strategy is an integral element of the Council's medium term financial strategy, ensuring coherence between revenue and capital budgets to enable delivery of the Council's services
4. **Collaboration:** the strategy brings together the capital plans of the Council to ensure the delivery of the well-being objectives
5. **Involvement:** the strategy is developed through directorates identifying capital needs and schemes to meet those needs. It is subject to scrutiny by this committee and is presented to cabinet and then council for approval.

7.2 The well-being objectives are designed to complement each other and are part of an integrated way of working to improve wellbeing for the people of Bridgend. In developing the Capital Strategy, officers have considered the importance of balancing capital resources over the short-term and minimising the revenue costs of debt with longer-term objectives of managing the Council's long term capital programme. The Prudential Indicators are forward looking and are set to support future sustainability.

8. Financial implications

8.1 The financial implications are included in the report. Both the financial information and Prudential Indicators will be updated in advance of Cabinet and Council in February 2021.

9. Recommendation

9.1 That the Corporate Overview and Scrutiny Committee is recommended to:

- note the Capital Strategy 2021-22 to 2030-31 including the Prudential Indicators 2021-22 to 2023-24 and its associated Schedules (**Appendix A**)

Gill Lewis CPFA
Interim Chief Officer – Finance, Performance and Change

January 2021

Contact Officer:
Nigel Smith
Interim Group Manager – Chief Accountant
Ext.3604. E-mail: nigel.smith@bridgend.gov.uk

Background Papers:

CIPFA: The Prudential Code for Capital Finance in Local Authorities (Fully Revised 2017)