



# Draft Capital Strategy

2021-22 to 2030-31



## **1.0 INTRODUCTION**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Financing in Local Authorities (2017) 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. Local Authorities should have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

This Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's 10 year Capital Programme. It also reports on the delivery, affordability and risks associated with this Strategy.

## **1.1 AIMS AND PRINCIPLES**

The Capital Strategy is presented to Council as a Policy Framework document, and links with the Corporate Plan, Treasury Management Strategy (TMS), Medium Term Financial Strategy (MTFS) and the Council's Asset Management Plan (AMP). It sets out:

- what is capital expenditure/investment and why we incur it;
- the Council's overall capital objectives, priorities and plans;
- how the Council's capital expenditure/investment will be funded/resourced
- how the Council's capital expenditure/investment plans will be appraised;
- how capital plans will be approved, monitored and reported upon; and
- the skills and knowledge required to deliver the capital plans.

The Capital Strategy should be read in conjunction with the Council's TMS - which contains the Council's Investment Strategy and Borrowing Strategy - and the Minimum Revenue Provision (MRP) Statement which is attached as Schedule A to this document. The Council's borrowing and MRP are directly impacted by capital plans.

The capital programme is a key element of the MTFS. The MTFS provides a set of clear principles which drive the budget and spending decisions of the Council. There are thirteen principles in total, but the following three refer specifically to the capital programme and Strategy:

10. Capital investment decisions are in alignment with the Council's Capital Strategy, and mitigate any statutory risks taking account of return on investment and sound option appraisals.
11. Prudential borrowing is only used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
12. Decisions on the treatment of surplus assets are based on an assessment of the potential contribution to the revenue budget and the capital programme.

The Capital Strategy sets out a number of guiding principles on the following:

<b>PRINCIPLE 1 : Focus capital investment on delivery of the Council’s Well-being Objectives and Priorities</b>
<ul style="list-style-type: none"> <li>• Ensuring that capital investment plans are driven by the Council’s Corporate Plan</li> <li>• Ensuring decision-makers are clear on the positive contribution capital investment makes to our Well-being objectives</li> <li>• Appraising all investments in the context of objectives/priorities</li> <li>• Ensuring there is a corporate business planning process incorporating service transformation and the impact on property assets</li> </ul>
<b>PRINCIPLE 2 : Ensure strong governance over decision-making</b>
<ul style="list-style-type: none"> <li>• Ensuring that proposals demonstrate that a rigorous process of options appraisal has been followed, requiring evidence of need, cost, risk, outcomes and methods of financing</li> <li>• Schemes will only be added once an affordable business plan is in place and it demonstrates value for money</li> <li>• All major capital schemes have a lead Project Sponsor and follow project management principles</li> <li>• The approval process within the Financial Procedure Rules contained in the Constitution are strictly adhered to</li> </ul>
<b>PRINCIPLE 3 : Ensure capital plans are affordable, sustainable and prudent</b>
<ul style="list-style-type: none"> <li>• Promote capital investment which allows invest to save outcomes and which contribute to future MTFS savings</li> <li>• Make sure assets perform at an optimal level through effective ongoing asset management and are consistent with levels of investment</li> <li>• Review and challenge the Council’s assets, including the need, cost and performance of the estate</li> <li>• Maximise the use of Internal Borrowing and maintain an under-borrowed position compared to its Capital Financing Requirement if feasible</li> </ul>
<b>PRINCIPLE 4 : Maximise and promote the best use of available funds</b>
<ul style="list-style-type: none"> <li>• Generate funding, where possible, from the rationalisation of existing assets with a strong Disposal Strategy</li> <li>• Minimise the use of ring-fencing capital receipts to ensure a One-Council approach</li> <li>• Bidding for external funds where appropriate and ensuring that there are effective working relationships with external funders</li> <li>• Have clear policies for the consumption of our reserves</li> <li>• Ensuring that there is effective pre- and-post project appraisal including a “lessons learned” exercise.</li> <li>• Ensuring up to date property information relating to condition surveys, life cycle costs and maintenance back logs</li> <li>• An estates strategy which tracks lease covenant compliance</li> </ul>

## CAPITAL EXPENDITURE AND INVESTMENT

### 2.0 CAPITAL EXPENDITURE

Capital investment is technically described as:

**“Expenditure on the acquisition, creation, or enhancement of ‘long term assets’”**

This generally consists of land, property and plant which have a useful life of more than 1 year, but can also include funding passed on to other bodies in order for them to undertake capital works. Expenditure outside this definition will be, by definition, revenue expenditure.

Expenditure can be capitalised where it relates to the:

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

Enhancement of an existing fixed asset means:

- To lengthen the useful life of the asset; or
- To increase substantially the open market value of the asset; or
- To increase substantially the extent to which the asset can be used for the purposes of, or in connection with, the functions of the Council.

Within the Accounting Policies for the Council, expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

All expenditure on Property, Plant and Equipment is recognised irrespective of value. Capital expenditure below £40,000 with the exception of vehicles, is considered non-enhancing and is immediately impaired unless cumulatively over more than one year the expenditure would amount to more than this value.

The Council currently does not make use of any capitalisation flexibilities nor capitalise any borrowing costs associated with the capital programme.

The Council’s capital expenditure plans are linked to the Corporate Plan, Asset Management Plan, priorities and service delivery plans with the inclusion of the ‘Future Property Needs’ within the business plan template.

The Council has acquired relatively few property assets over the last few years. Its focus has been on releasing or remodelling existing assets. From time to time it has acquired property required for service developments, for example purchasing land and buildings for school modernisation projects. It has also secured £1 million capital funding for commercial property investment, which has been partially spent on acquiring an income producing leased property.

To date the remainder is unspent as no suitable options which meet the Council’s criteria have been forthcoming.

In 2021-22, the Council is planning capital expenditure of £42.653 million as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Council Fund services	22.822	53.061	42.653	16.963	35.329
Capital Investments		0.480			
<b>TOTAL</b>	<b>22.822</b>	<b>53.541</b>	<b>42.653</b>	<b>16.963</b>	<b>35.329</b>

The main Council Fund services projects in this period include:

- 21<sup>st</sup> Century schools. Forecast expenditure of £12.354 million is included in the above table for 2021-22 to 2023-24. £3.4 million of this is linked to highway schemes supporting 21<sup>st</sup> Century Band B schools.
- Cardiff Capital Region City Deal - £7.951 million. This is an existing scheme which is focused on raising economic prosperity, increasing job prospects and improving digital and transport connectivity.
- Depot rationalisation – £8.144 million is included in 2021-22 for this scheme.
- Annual commitments to Disabled Facilities Grants and other housing adaptation schemes of £1.950 million per annum.
- £2.085 million in 2021-22 for the Maesteg Town Hall scheme.

## 2.1 CAPITAL FINANCING

The Council receives an annual ‘General Capital Funding’ allocation from Welsh Government, which comprises General Capital Grant and un-hypothecated Supported Borrowing. Revenue funding to repay the supporting borrowing is included within the Revenue Support Grant. Further details of funding sources are detailed in Schedule B.

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 net financing requirement (borrowing, leasing and Private Finance Initiative (PFI)). The planned financing of the expenditure outlined in Table 1 is as follows:

*Table 2: Capital financing*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
External sources	16.199	25.691	15.853	10.822	25.371
Own resources	1.408	19.874	17.162	2.203	6.020
Net Financing Requirement	5.215	7.976	9.638	3.938	3.938
<b>TOTAL</b>	<b>22.822</b>	<b>53.541</b>	<b>42.653</b>	<b>16.963</b>	<b>35.329</b>

The net financing requirement or 'debt' is only a temporary source of finance, since loans and leases must be repaid, and is replaced over time by other financing, usually from revenue, which is known as Minimum Revenue Provision, or MRP. As well as MRP, the Council makes additional voluntary revenue contributions to pay off Prudential or Unsupported Borrowing. Other MRP on Long Term Liabilities relates to the provision of a school at Maesteg. The total of these are shown in Table 3 below:

*Table 3: Replacement of debt finance*

	<b>2019-20 actual £m</b>	<b>2020-21 projection £m</b>	<b>2021-22 budget £m</b>	<b>2022-23 budget £m</b>	<b>2023-24 budget £m</b>
Minimum Revenue Provision (MRP)	2.885	2.927	<b>2.985</b>	3.007	3.031
Additional Voluntary Revenue Provision	1.948	1.508	<b>2.250</b>	2.842	2.827
<b>Total MRP &amp; VRP</b>	<b>4.833</b>	<b>4.435</b>	<b>5.235</b>	<b>5.849</b>	<b>5.858</b>
<b>Other MRP on Long term Liabilities</b>	<b>0.690</b>	<b>0.743</b>	<b>0.801</b>	<b>0.863</b>	<b>0.929</b>
<b>Total Own Resources</b>	<b>5.523</b>	<b>5.178</b>	<b>6.036</b>	<b>6.712</b>	<b>6.787</b>

The updated Capital Programme is approved by Council before the start of the 2021-22 financial year as part of the Medium Term Financial Strategy.

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 by the MRP amount within the year. The CFR is expected to increase by £3.602 million during 2021-22. 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

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
<b>Capital Financing Requirement (CFR)</b>					
Opening CFR excluding PFI & other liabilities	155.084	155.466	<b>159.007</b>	163.410	161.499
Opening CFI - PFI	17.000	16.310	<b>15.567</b>	14.766	13.903
<b>Total opening CFR</b>	<b>172.084</b>	<b>171.776</b>	<b>174.574</b>	<b>178.176</b>	<b>175.402</b>
Movement in CFR excluding PFI & other liabilities	0.382	3.541	4.403	(1.911)	(1.920)
Movement in CFR - PFI	(0.690)	(0.743)	<b>(0.801)</b>	(0.863)	(0.929)
<b>Total movement in CFR</b>	<b>(0.308)</b>	<b>(2.798)</b>	<b>3.602</b>	<b>(2.774)</b>	<b>(2.849)</b>
<b>Closing CFR</b>	<b>171.776</b>	<b>174.574</b>	<b>178.176</b>	<b>175.402</b>	<b>172.553</b>
<b>Movement in CFR represented by:</b>					
Net Financing Need for year (Table 2)	5.215	7.976	<b>9.638</b>	3.936	3.938
Minimum and voluntary Revenue Provisions	(4.833)	(4.435)	<b>(5.235)</b>	(5.849)	(5.858)
MRP on PFI and Other Long Term Liabilities (Table 3)	(0.690)	(0.743)	<b>(0.801)</b>	(0.863)	(0.929)
<b>Total Movement</b>	<b>(0.308)</b>	<b>2.798</b>	<b>3.602</b>	<b>(2.774)</b>	<b>(2.849)</b>

### Lease accounting

A change to the accounting for leases under International Financial Reporting Standard (IFRS) 16 was anticipated to be effective from 1 April 2021, which would have resulted in the creation of Right of Use assets and an associated lease liability. The impact of this would be to increase the CFR and therefore MRP. The implementation of the new standard has been delayed to 1 April 2022. At present no adjustment has been made to the above figures to account for this.

### Asset Disposals

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be reinvested in new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council anticipates to receive around £6.69 million of capital receipts over the next couple of years as set out in Table 5.

Table 5: Forecast capital receipts receivable in £ millions

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
<b>Opening balance</b>	<b>17.922</b>	<b>18.607</b>	<b>12.752</b>	<b>4.617</b>	<b>4.617</b>
Asset sales	0.925	3.190	3.500	-	-
Applied in capital programme	(0.240)	(9.045)	(11.635)	-	(0.688)
<b>Closing balance</b>	<b>18.607</b>	<b>12.752</b>	<b>4.617</b>	<b>4.617</b>	<b>3.929</b>

As can be seen from the above table, the anticipated receipts from asset sales are substantially committed in the capital programme over the 3 years 2021-2024.

## THE COUNCIL'S CAPITAL PLANS

### 3.0 CAPITAL PROGRAMME BY WELL-BEING OBJECTIVE

Within the Corporate Plan, there are three Wellbeing Objectives namely:

- Supporting a successful sustainable economy
- Helping people and communities to be more healthy and resilient
- Smarter use of resources

In accordance with **PRINCIPLE 1** above, the majority of schemes within the existing Capital Programme link to the Council's Wellbeing Objectives, but there are also schemes that relate to Core Services and Statutory Functions.

Table 6: Capital Programme by Well-being Objective:

Wellbeing Objective	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Supporting a successful sustainable economy	3.745	22.942	<b>17.923</b>	6.176	6.468
Helping people and communities to be more healthy and resilient	4.048	1.926	<b>1.950</b>	2.050	2.050
Smarter use of resources	14.581	22.267	<b>20.180</b>	7.507	25.491
Core services and statutory functions	0.448	6.406	<b>2.600</b>	1.230	1.330
	<b>22.822</b>	<b>53.541</b>	<b>42.653</b>	<b>16.963</b>	<b>35.329</b>



### 3.1 OTHER KEY DRIVERS

As well as the Corporate Plan, there are other key drivers of the Council's capital plans. These are:

- Asset management requirements
- Health and Safety works

### 3.2 ASSET MANAGEMENT REQUIREMENTS

The Council's Asset Management Plan vision was re-aligned with the Corporate Plan 2018-22 and reviewed for 2021. The principles remain as follows:

**“To have a lean sustainable estate that enables BCBC to live within its means and support delivery of our wellbeing objectives”**

The following clear principles drive the on-going challenge and management decisions relating to our assets:

1. The AMP 2021 supports and maintains alignment with the MTFs and the Corporate Plan, linking with other resource strategies.
2. Capital investment decisions support the Council's corporate priorities and mitigate any statutory risks taking account of return on investment and sound option appraisals.
3. Decisions on the treatment of surplus assets are based on an assessment of the potential contribution to the revenue budget and the capital programme.
4. A balance will be maintained within the non-operational portfolio between rental income, capital receipts, economic development/ community support.
5. Capital receipts generated will support the capital programme.

The Council also has a Highways Asset Management Plan (HAMP). The HAMP needs to take in account the following:

1. Much of the infrastructure serving the northern half of the county borough was originally constructed in the early 1900's and was not designed to cope with the current demands (economic, social and environmental) placed upon it.
2. The BCBC highway network is continuously growing with no sign of abatement. The Council has seen much in the way of development over the last decade, resulting in a significant increase in the amount of asset requiring management.
3. Highway Authorities have a statutory duty to maintain highways and ensure that they are available for safe use by all.

The HAMP is an essential document that sets out how the levels of service for the infrastructure network determined by the Council will be achieved. The HAMP is therefore a “living” document that will be subject to continual review and development.

### 3.3 HEALTH AND SAFETY WORKS

There is an earmarked reserve for Asset Management including funding for Condition Surveys. Phase one surveys are now completed and phase two are currently on site, anticipated completion of the final phase and ongoing CAT surveys will be undertaken in 2021. The surveys include planned preventative maintenance data which will inform the Council's

budget allocation for both revenue and capital repairs, maintenance and new build. Given the limited capital and revenue funding and the currently known high level of maintenance backlog, a prioritisation matrix for budget allocation has been developed. The Matrix works to give highest priority to Health and safety works. Given the potential level of funding compared to the demand for repairs and maintenance, this may lead to the closure of buildings or the drive for further capital investment in new build projects. Once fully implemented the Corporate Landlord model will be able to effectively inform the capital funding planning and decision making as it relates to asset management.

For highway structures, the current basis for prioritisation is one of reactive safety repairs, where the asset is risk assessed using a standardised matrix. This risk assessment is then considered against the individual assets Bridge Condition Indices (BCI) rating. This allows the prioritisation of schemes and allocation of the available budget to ensure the best value is achieved. A similar approach is applied to carriageway and footway schemes, where combinations of technical survey, site inspections and reports from members of the public determine the basis for the prioritisation of works.

In 2018-19 a new Capital Asset Management Fund of £1.5 million and a Highways Asset Management Fund of £1.2 million were established. The intention of these is to fund those schemes that have been prioritised by the condition surveys as posing a Health and Safety risk either within buildings or within our Highways Infrastructure. The balances on these as at 30 November 2020 are £0.232 million and £1.011 million respectively.

### 3.4 COMMERCIAL ACTIVITIES

HM Treasury issued revised lending terms for PWLB borrowing by local authorities in November 2020. As a condition of accessing the PWLB, local authorities will be asked to confirm that there is no intention to buy investment assets primarily for yield in the current, **or next two** financial years. Local Authorities' section 151 Officers or equivalent will be required to confirm that capital expenditure plans are current and that the plans are within acceptable use of the PWLB.

Whilst this does not preclude the Council investing in commercial activities, investing in assets for yield would prevent the Council from accessing PWLB borrowing. The extensive 21<sup>st</sup> Century Schools Band B programme and borrowing needed to support the capital programme therefore will in practice prevent the Council investing in land or property for commercial reasons.

The Council does have an existing investment portfolio which is 100% based within the County Borough and primarily the office and industrial sectors. The income streams are generally spread between the single and multi-let office investments on Bridgend Science Park, the multi-let industrial estates and the freehold ground rent investments. The portfolio therefore does not accord with the risk balance in location and sectoral terms to the majority of investment portfolios and is also management intensive, with a large number of units relative to the overall income and value. The total value of Investment Properties was £4.635 million as at 31 March 2020. This would be expected to generate a rental income of £478,000 per annum excluding any vacant or rent-free periods.

Existing investments are not affected by this recent change. There are limited opportunities within the existing investment portfolio to release / sell properties, as the current emphasis is to enhance income return (as opposed to capital value). The majority of the investments held are high yielding and an improved income stream is unlikely on any re-investment.

The majority of the Council's investment portfolio has grown organically. In 2014 the Council approved £1 million within the capital programme and spent £520,000 on acquiring an office building, which generates a rental income of £56,000 per year or just over 9% return on the

investment. There is a further £480,000 available but as yet no suitable options have been identified within the Bridgend area, which would produce a reasonable return and at acceptable levels of risk. The Council may in the future wish to consider expanding its property investment portfolio, in which case it would need to consider the impact of the PWLB lending terms changes and review the criteria and investment strategy and consider the investment taking into account the level of associated risk.

### **3.5 TREASURY MANAGEMENT STRATEGY (TMS)**

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.

### **3.6 BORROWING STRATEGY**

The Council's major objectives when borrowing are:

- to minimise the revenue costs of debt
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing
- to effect funding in any one year at the cheapest cost commensurate with future risk
- to forecast average future interest rates and borrow accordingly
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change
- to optimise the use of all capital resources including borrowing, both supported and unsupported, usable capital receipts, revenue contributions to capital and grants and contributions

### **3.7 LIMITS TO BORROWING ACTIVITY**

The Council's long term borrowing at 31 December 2020 was £96.87 million at an average interest rate of 4.69%. The majority of lending is Public Works Loan Board (PWLB) with maturity dates between 2025 and 2057. £19.25 million of this relates to Lender's Option Borrower's Option (LOBO) loans that have a maturity date of 2054, however these may be rescheduled in advance of this maturity date.

External borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As the Council has an integrated Treasury Management Strategy there is no association made between individual loans and particular types of expenditure. The Council makes use of internal borrowing and maintains an under-borrowed position in accordance with **PRINCIPLE 3** above. The capital borrowing need (Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. Projected levels of the Council's total outstanding debt, which comprises borrowing, PFI and Other Long Term Liabilities, are shown below compared with the Capital Financing Requirement:

*Table 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement*

	<b>2019-20 actual £m</b>	<b>2020-21 projection £m</b>	<b>2021-22 estimate £m</b>	<b>2022-23 estimate £m</b>	<b>2023-24 estimate £m</b>
Debt (incl. PFI & leases)	116.867	114.867	<b>119.667</b>	124.667	124.667
Capital Financing Requirement	171.714	174.574	<b>178.176</b>	175.402	172.554

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

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. Further details of the Liability Benchmark can be found within the Treasury Management Strategy 2021-22. It is anticipated that an additional £7.2 million will need to be borrowed for the period 2021-22 to 2023-24 based on the assumptions within the Capital Programme and the use of Capital Receipts and Reserves. The actual amount will be monitored and assumptions challenged and borrowing will only be taken if there is no opportunity to use Internal Borrowing.

*Table 8: Borrowing and the Liability Benchmark*

	<b>2019-20 actual £m</b>	<b>2020-21 projection £m</b>	<b>2021-22 estimate £m</b>	<b>2022-23 estimate £m</b>	<b>2023-24 estimate £m</b>
Outstanding Borrowing	116.867	117.467	<b>119.667</b>	124.667	124.667
Liability Benchmark	155.405	159.008	<b>163.411</b>	161.499	159.580

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 9: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	<b>2020-21 limit £m</b>	<b>2021-22 limit £m</b>	<b>2022-23 limit £m</b>	<b>2023-24 limit £m</b>
Authorised limit – borrowing	145.000	<b>170.000</b>	170.000	170.000
Authorised limit – other long term liabilities	30.000	<b>30.000</b>	30.000	30.000
<b>Authorised Limit Total</b>	<b>175.000</b>	<b>200.000</b>	<b>200.000</b>	<b>200.000</b>
Operational boundary – borrowing	115.000	<b>120.000</b>	130.000	120.000
Operational boundary – other long term liabilities	25.000	<b>25.000</b>	25.000	22.000
<b>Operational Boundary Limit Total</b>	<b>140.000</b>	<b>145.000</b>	<b>155.000</b>	<b>142.000</b>
<b>Total Borrowing and Long Term Liabilities</b>	<b>114.867</b>	<b>119.667</b>	<b>124.667</b>	<b>124.667</b>

The authorised limit and operational boundary for 2022-2023 and subsequent years will need to be reviewed in light of changes to lease accounting under IFRS16, due to be implemented from April 2022. This new Standard will require that operating leases are brought onto the balance sheet as a right of use asset and a lease liability. The impact of this is that it will increase the Council's liabilities and therefore its borrowing. The current estimate is that the borrowing requirement will increase by approximately £5 million. This has not been reflected in the above table.

Further details on borrowing are included within the Treasury Management Strategy.

### 3.8 INVESTMENT STRATEGY

The Council's major objectives when investing are:-

- to maintain capital **security**
- to maintain **liquidity** so funds are available when expenditure is needed
- to achieve the **yield** on investments commensurate with the proper levels of security and liquidity

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

Table 10: Treasury management investments

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Cash and Cash Equivalents	0.100	-	-	-	-
Short term Investments	31.650	39.242	16.368	7.000	7.000
Longer term Investments	12.000	3.000	3.000	3.000	3.000
<b>TOTAL</b>	<b>43.750</b>	<b>42.242</b>	<b>19.368</b>	<b>10.000</b>	<b>10.000</b>

As noted in section 3.7, the Council is currently in an under-borrowed position. In other words the Council is able to support capital investment through the short-term use of reserves and cash balances. However, as the Capital Programme accelerates, particularly with the development of Band B schools as part of the 21<sup>st</sup> Century Schools Programme, these reserves will reduce significantly and the Council will need to consider long term borrowing to underpin expenditure in the Capital Programme. The above table reflects the increased spend and associated reduction in short term investments as a result. The Council will maintain a minimum level of investments of £10 million, in line with Markets in Financial Instruments (MiFID) regulations within which the Council operates.

#### Loans to Other Organisations

The Council can make investments to assist local public services, including making loans to small businesses to promote economic growth. The Council will assess these opportunities and will only consider if such investments break even after all costs. Loans to such

organisations will be approved as part of the capital programme and any borrowing to support such loans will need to be within PWLB regulations.

### 3.9 OTHER LONG TERM LIABILITIES

#### Private Finance Initiative

The Council has a Private Finance Initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. This forms a long-term liability for the Council (with thirteen years remaining on the term) which is £15.566 million at 31 March 2021 including the short term liability of £0.801 million included as current liabilities in the Council's balance sheet in the Statement of Accounts. This is a technical adjustment and is equivalent to the amount that is to be paid during 2021-22.

#### Pension Guarantees

The Council has entered into a number of long-term contracts for services that have been outsourced to service providers. These often involve the transfer of Council employees to the new service provider. Employee's rights are protected under the provision in Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). However, pension rights are not fully covered within TUPE regulations. The Council have thus given a pension guarantee to Awen Cultural Trust. This guarantee means that if an admitted body fails to pay its pension obligations then the Council will be responsible for taking on those obligations.

### 3.10 REVENUE BUDGET IMPLICATIONS

The financing of capital expenditure via interest on loans and MRP are charged to the revenue budget, offset by any investment income receivable. Table 11 below shows the proportion of the budget that will need to be set aside to finance capital expenditure, which is expected to increase over the life of the current capital programme, accelerating the pressure that capital expenditure, funded from debt, puts on the revenue budget.

*Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Capital Financing Central	6.377	6.409	6.696	6.708	6.721
Other Financing costs	3.895	3.455	4.196	4.789	4.773
<b>TOTAL FINANCING COSTS</b>	<b>10.272</b>	<b>9.864</b>	<b>10.892</b>	<b>11.497</b>	<b>11.494</b>
Proportion of net revenue stream	3.79%	3.64%	4.00%	4.21%	4.19%

The central revenue budget for capital financing for 2021-22 is £6.632 million as detailed in Table 12 below. The Interest Paid budget 2021-22 reflects the need to fund increased costs of borrowing. Anticipated borrowing is set out in Table 7.

*Table 12: Central Capital Financing Revenue Budget*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 projection £m	2023-24 projection £m
Interest Paid	4.532	4.532	4.769	4.769	4.769
Minimum Revenue Provision (MRP)	2.754	2.796	2.854	2.856	2.899
Other Financial Instruments	0.008	0.008	0.009	0.009	0.010
Interest Received	(1.019)	(1.000)	(1.000)	(1.000)	(1.000)
<b>Central Capital Financing Budget</b>	<b>6.275</b>	<b>6.336</b>	<b>6.632</b>	<b>6.654</b>	<b>6.678</b>

There are also Financing Budgets within the Directorates for Prudential Borrowing and for the payment of the PFI School and other Lease Liabilities. These are detailed in Table 13 below:-

*Table 13: Directorate Capital Financing Revenue Budget*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Additional Voluntary MRP	1.948	1.508	2.250	2.842	2.827
PFI & Lease Liability Payments	1.947	1.947	1.947	1.947	1.947
<b>Directorate Capital Financing Budget</b>	<b>3.895</b>	<b>3.455</b>	<b>4.197</b>	<b>4.789</b>	<b>4.773</b>

Table 14 shows how there will be increased revenue pressure on the capital financing budgets over the MTFS period:

*Table 14: Capital Financing Revenue Budget and Projected Costs*

	2019-20 actual £m	2020-21 projection £m	2021-22 budget £m	2022-23 budget £m	2023-24 budget £m
Central Capital Financing Budget (Table 12)	6.275	6.336	6.632	6.654	6.678
Directorate Capital Financing Budget (Table 13)	3.895	3.455	4.197	4.789	4.773
<b>Total Capital Financing Budget</b>	<b>10.170</b>	<b>9.791</b>	<b>10.829</b>	<b>11.443</b>	<b>11.451</b>
Total Financing Costs (Table 11)	10.272	9.864	10.892	11.497	11.494
<b>Under/(Over) Spend</b>	<b>(0.102)</b>	<b>(0.073)</b>	<b>(0.063)</b>	<b>(0.054)</b>	<b>(0.043)</b>

This would be the worst case scenario with unsupported borrowing being used for future schemes should the Council not have available the cash resources currently held as earmarked reserves. The Council will endeavour to minimise the revenue pressure by maximising alternative capital resources such as earmarked reserves and capital receipts.

## RESOURCING STRATEGY

### 4.0 FINANCIAL CONTEXT

Whilst the aims and priorities will shape decisions around capital expenditure, there is recognition that the financial resources available to meet priorities are constrained in the current economic and political climate. The context for capital expenditure decisions is as follows:

- The Council does have capital resources and expects to receive more resources in the future with an annual allocation from Welsh Government, potential s106 Monies or grant approvals.
- The Council does have a Disposal Strategy and has capital assets which it could sell and use receipts to reinvest
- The Council is currently servicing debt of £96.87 million of fixed interest loans, at an average interest rate of 4.69%
- The Council's MTFS shows a funding gap so any additional capital expenditure which is not funded through capital resources will increase this gap unless that expenditure delivers revenue savings or income.

The Council may see a significant reduction in its capital allocation from Welsh Government in 2021-22. This is due to additional funding provided by the Welsh Government during 2020-21 for de-carbonisation of an additional £15 million across Wales (circa £0.7 million for Bridgend) to enable local authorities to respond to the urgent need to decarbonise. Bridgend also received an increase in general capital funding in 2020-21 of £318,000. In light of the above context and reduction in capital grant, it is imperative that capital expenditure plans are affordable, prudent and sustainable.

### 4.1 PRINCIPLES FOR ALLOCATION OF CAPITAL ALLOCATION

The governing principles which underpin the allocation of capital resources are set out in the following diagram:

Nature of Capital Expenditure	Funding Source				
	General Capital Funding / Supported Borrowing	Capital Receipts / Uncommitted Reserves	Interest Free Loan	Unsupported Borrowing - Corporate Funding	Unsupported Borrowing - Directorate Funding
Mandatory					
Well-being Objective					
Investments which attracts Matched Funding					
Invest to Save / Income Generation - Commercial					

	Eligible for funding from this source
	Not eligible for funding from this source



In summary the main principles of capital allocation are:

General Capital Funding and Supported Borrowing from Welsh Government will be prioritised towards mandatory capital investments. This includes investment required to meet health and safety requirements. This principle also applies to uncommitted capital receipts and capital reserves.

Beyond this, any consideration will be given to capital schemes which directly support the achievement of the Council's corporate objectives.

Unsupported (Prudential) Borrowing will be prioritised as follows:

- To mandatory capital expenditure, including health and safety requirements. This will be considered to be an inescapable budget pressure and will be included in future years' budgets as part of the annual budget setting process.
- To capital expenditure which directly supports the achievement of the Council's well-being Objectives. Borrowing for such projects will be funded corporately through an increase in budget allocation, which must be approved by full Council. Such borrowing commits the Council to interest and repayments during the asset life, and therefore it must be recognised that as budgets are reduced, the financing costs must be met by budget cuts elsewhere.
- To capital expenditure which attracts a high level of matched funding. This is particularly important as the Council tries to maximise every £1 it spends on capital with schemes involving external grants or contributions from partners. The aim is for the Council to ensure that it invests in its strategic buildings and town centre infrastructure as grant funding and inward investment opportunities become available by allocating uncommitted reserves, maximising interest free loans or unsupported borrowing.
- To capital expenditure which provides a good financial return. Borrowing for such projects must be funded by the directorate, and therefore the financial benefit accruing to the directorate will be net of financing costs. This approach aligns the directorate incentives with the corporate benefit of such projects. Advantage will be taken of interest free loans where available.

## CAPITAL INVESTMENT APPRAISAL

### 5.0 FEASIBILITY ASSESSMENT

The purpose of a feasibility assessment is to evaluate the practicality and desirability of a capital project before the Council invests time and money into the project. The Council needs to understand how successful the project will be, what will be delivered, at what cost, how funded, and what potential risks may be inherent in the project (which may also affect cost).

It would be expected that in nearly all circumstances, any proposed investment in land and buildings will require the completion of a full feasibility study in the first instance. This will determine whether the proposed scheme can proceed to a **capital expenditure bid** and, if approved, subsequent inclusion into the capital programme as a fully funded scheme.

### 5.1 CAPITAL EXPENDITURE BIDS

The Council will maintain a rolling ten year capital programme, to be updated on an annual basis (or more frequently as required) to take into account revised priorities, new schemes and changes in the availability of funding. The current year's programme is monitored on a quarterly basis by Cabinet and updated programmes approved by Council.

The Council's Capital Programme contains a number of recurrent annual allocations, which are the first call on its General Capital Funding. These allocations are reviewed annually with a view to determining whether they are still essential, relevant and achieving the outcomes expected, and amended accordingly.

Where capital resources allow as a result of additional general capital grant, earmarked reserves or capital receipts, as part of the MTFs process, Directorates will be requested from September each year to submit Expressions of Interest for new capital schemes, outlining:

- Proposed Project
- Timescale
- Potential Cost
- Potential Revenue Savings
- Link to Corporate Priorities
- Risk of not Undertaking

These will be ranked in order of fit to:

1. **Link to well-being objectives**
2. **High level of Risk of not progressing, based on the criteria below.**
3. **Service is able to meet any additional revenue costs arising from the scheme e.g. increased Business Rates, running costs.**
4. **Ability to attract matched funding / high leverage ratio.**
5. **An appropriate return on investment where appropriate.**

High	High risk to BCBC in terms of service delivery and/or meeting MTFs Savings e.g. Urgent/ Essential Works to prevent imminent building failure and closure. Requirement to meet approved Bridgend Change Programme Project to deliver MTFs Savings
Medium	Medium risk to BCBC in terms of service delivery and/or meeting MTFs Savings e.g. identified works required over the next 2 to 5 years. Requirement to meet Proposed Bridgend Change Programme Project to deliver MTFs Savings

Low	Low risk to BCBC in terms of service delivery and/or meeting MTFS Savings e.g. identified works desirable , Requirement to meet yet to be identified Bridgend change Programme Project to deliver MTFS Savings
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## 5.2 EVALUATION APPROACH

As stated, the Council only has a limited amount of resources, and needs to have regard to the overall affordability of the capital programme in future years. Each scheme, therefore, needs to be evaluated to ensure it meets the Council's objectives and in accordance with **PRINCIPLE 1** above.

The business plan put forward for a capital project will be reviewed to ensure it takes account of stewardship, value for money, prudence, sustainability and affordability, and has been subject to detailed feasibility assessments. Investment decisions will consider risk and reward and how the project contributes to the achievement of corporate objectives. The phasing of projects over more than one financial year will be assessed to ensure timetabling of plans and budgeting is realistic and funding is available over the life of the project.

The revenue implications for each capital bid are considered at the initial evaluation stage, covering both staffing /running costs associated with the bid and the financing costs over the lifetime of the asset created. One of the Chief Finance Officer's requirements when reviewing capital bids is to ensure that the revenue implications are realistic. The options appraisal exercise undertaken for larger projects seeks to ensure that the lifetime revenue implications of a capital project are fully considered and evaluated, are affordable and are included in the MTFS in accordance with **PRINCIPLE 2** above.

Successful projects will then be required to complete a full Business Case to be considered in more detail by Corporate Management Board and Cabinet for eventual inclusion in the Capital Programme to be incorporated in the MTFS, to be approved by Council.

The Council can also make Treasury investments including overnight deposits, fixed term investment, money market funds, property funds and government bonds. These investments are made in accordance with the TMS which is approved alongside the Capital Strategy.

### In Year Approvals

Any bids for capital funding outside of the annual MTFS bidding round should be accompanied by a full business case and be supported by the appropriate Director, Section 151 Officer and Cabinet. All funding sources should be fully identified before the bid is taken forward for Council approval for inclusion in the capital programme.

In line with the Council's Financial Procedure Rules, schemes for which external funding has been approved (grants, S106 etc) will be added to the capital programme once the funding has been accepted and included in the next capital programme report to Council.

In addition, any 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, subject to a maximum value of £100,000. Any such decision requires approval by either the Chief Executive Officer (or can be sub-delegated to the Section 151 Officer) under the Scheme of Delegation, Scheme B1 paragraph 2.2.

### **5.3 POST PROJECT EVALUATION**

Once any major capital project is completed, it is good practice to look at the project in retrospect. This is an important part of any project to review lessons learned. It's a chance to reflect on what those involved with the project, both from a provider/contractor aspect and customer view, as to what their perspectives on the project were, what they may have changed, what they learned and what could be done better. This is important to learn from mistakes so as to avoid those in the future, but also crucially to gather best practice and to pass this on to other projects.

The project manager should undertake a lessons learned meeting with key personnel once the project has been completed to enable the Council to share best practice in all capital schemes.

## **GOVERNANCE AND RISK MANAGEMENT**

### **6.0 STRATEGY**

It is important given the risks surrounding Capital Projects that the appropriate Governance framework is in place. This is highlighted in **PRINCIPLE 2** above.

The Prudential Code sets out a clear governance procedure for the setting and revising of a capital strategy and prudential indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

The Chief Finance Officer will prepare a Capital Programme for consideration by Corporate Management Board (CMB) and Cabinet. It must be approved by Council in accordance with the Financial Procedure Rules of the Council's Constitution.

Variations to the capital programme, other than those permitted under Rules 3.4.7 and 3.4.9 of these Rules, shall require the approval of the Council following a report of the Chief Finance Officer after taking into consideration the recommendations of the Cabinet.

### **6.1 CAPITAL EXPENDITURE/INVESTMENT DECISION**

A monitoring process is in place which:

- Reports on variances in expenditure and slippage on schemes and seeks explanations from project managers to report back to CMB and Cabinet to inform future planning decisions
- Quarterly capital monitoring reports will be prepared for Cabinet which should include details of any virements between projects as well as projections of likely year end spend.

A post project appraisal of all projects in accordance with the Project Management Toolkit must be completed to demonstrate how objectives have been met, how final costs compared to budget and what revenue costs / savings materialised. This information will be reported back to feed future appraisal exercises.

### **6.2 RISK MANAGEMENT**

Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.

General risks are those which are faced as a consequence of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control but mitigations have been developed as part of the business planning and governance process.

The effective management and control of risk are also prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

## 7.0 KNOWLEDGE AND SKILLS

Within Finance, the Capital Programme and TMS are managed by professionally qualified accountants or staff with extensive Local Government finance experience. They all undertake Continuous Professional Development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The Council subscribes to the CIPFA Financial Advisory Network (FAN) and as a result has access to courses and documentation on developments within the capital and treasury management fields. The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities and is a professionally qualified accountant and follows an ongoing CPD programme. All Treasury Management Practices (TMPs) are reviewed and updated as necessary.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite. Arlingclose will be the Council's Treasury Management Advisors until September 2024.

All the Council's commercial projects have project teams from all the professional disciplines from across the Council and when required external professional advice is also taken. Project management tools are used and there is a strong project management ethos within the Council. Throughout the Council is a good mix of professional qualified staff and staff with both commercial and local authority experience. There is a Corporate Landlord team consisting of skilled and professional staff covering design and management, estates and valuation, statutory compliance, strategic asset management planning, facilities management, management and commissioning of repairs and maintenance and energy management to introduce new energy efficiency measures such as upgraded heating, lighting, insulation and investigating new technological solutions that will enable staff to be fully agile and provide a better service, while an online portal is being developed that will provide information, process customer requests and enable staff to log jobs and track progress. The Regeneration Team within the Communities Directorate has been successful in applying for monies from various sources such as Welsh Government, Heritage Lottery and European monies.

## Schedule A

**ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2021-22**

The Annual Minimum Revenue Provision Statement needs to be approved by Council before the start of each financial year. The MRP charges for 2021-22 will be on the following bases:-

- i. Capital expenditure incurred before 1 April 2008 and any capital expenditure after 1 April 2008 that is government supported expenditure and does not result in a significant asset will be based on the Capital Financing Requirement after accounting adjustments on a straight line basis over 45 years
- ii. Supported capital expenditure that results in a significant asset (based on an internal assessment) incurred on or after 1 April 2008 and all unsupported capital expenditure, exercised under the Prudential Code, the MRP charge will be based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge can be delayed until the year after the asset is operational but this will be at the discretion of the Section 151 Officer
- iii. for assets reclassified as finance leases under International Financial Reporting Standards (IFRS) or resulting from a Private Finance Initiative, the MRP charge will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability for the year
- iv. Where loans are made to other bodies for their capital expenditure with an obligation for the bodies to repay, no MRP will be charged. The capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead
- v. MRP may be waived on expenditure recoverable within a prudent period of time through capital receipts (e.g. land purchases) or deferred to when the benefits from investment are scheduled to begin or when confirmed external grant payments towards that expenditure are expected.

The MRP Charge 2021-22 based on the estimated capital financing requirement is detailed below:-

	Options	Estimated Capital Financing Requirement 31/03/21 £m	2021/22 Estimated MRP £m
Capital expenditure before 01/02/2008 and any after 01/04/2008 that does not result in a significant asset (Supported)	(i)	128.186	2.853
Supported capital expenditure that results in a significant asset, incurred on or after 1 April 2008 (Supported)	(ii)	3.025	0.132
Unsupported capital expenditure, exercised under the Prudential Code (Unsupported)		27.797	2.250
PFI, Finance Leases and other arrangements – PFI School	(iii)	15.566	0.801
<b>TOTAL COUNCIL FUND</b>		<b>174.574</b>	<b>6.036</b>

## **Sources of Capital Investment**

### **Borrowing**

The Council is able to borrow money on the money market or from the Public Works Loan Board (PWLB) to fund capital schemes or, on a short term basis, use its own internal resources (i.e. cash flow). However, for all schemes initially funded from borrowing, the Council will have to fund the repayment and interest costs and any on-going related revenue support. With the exception of the Welsh Government's allocation of Supported Borrowing, all other borrowing is unsupported i.e. where associated interest and debt repayment costs must be met from existing revenue budgets, Council Tax, savings or additional income generation.

The Council is only able to borrow for "unsupported borrowing" (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Council is required to ensure that all borrowing is both prudent and affordable.

All schemes funded from Prudential Borrowing are approved by full Council, and in accordance with MTFS **PRINCIPLE 11** must be affordable and sustainable, with payback met from Directorate or Council revenue budgets over a period no longer than the life of the asset. Projects requiring funding through prudential borrowing should submit a robust business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax).

The potential for Prudential Borrowing is not unlimited and must be considered within the Council's overall borrowing limits. Whenever Prudential Borrowing is under consideration, the means of payment must be clearly identified. Typically this can be from:

- Income or savings generated by the investment;
- Budget reductions made elsewhere in the Directorate to compensate;
- Additional recurrent funding approved by Council as part of the budget setting process.

There may be the need for borrowing where there is no identifiable future revenue stream, for example, to repair or construct infrastructure assets. This may be to support Corporate Priorities. The cost of such borrowing falls on the council tax payer through payments of debt interest on the Council's revenue account and repayment of debt over a specified period of time. This is known as the Minimum Revenue Provision (MRP). There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis with the project evaluation clearly stating how the borrowing is to be afforded. Given the significant ongoing financial challenges facing this Council, it is likely that such schemes will be an "exception".

### **External Grants**

The Council receives annual capital grant funding from Welsh Government and is able to bid for grant funding directly to other government departments or from other grant awarding bodies.

The annual funding from Welsh Government is not ring-fenced so the Council has flexibility in how it allocates this funding. It is proposed that this is earmarked in the first instance to works deemed to be of a mandatory nature e.g. health and safety, or towards Wellbeing Objectives.

Any additional capital grant funding received from external sources must be managed in line with the Council's Grants Policy. Delegated authority is required to bid for and accept any external funding, and external funding applications should be supported by a strong business



case which demonstrates how the project meets the Council's Corporate Priorities and how any future revenue costs will be met.

### **Capital Receipts from Asset Disposals**

The Council generates capital receipts from the sale of surplus assets. Maximisation of these receipts will increase the amount that can be spent on capital investment. Capital receipts cannot be spent on revenue items.

The Council has a statutory obligation to deliver best consideration under S123 of the Local Government Act 1972 and will seek to obtain market value in its disposals. However, there are exceptions and there will sometimes be a balance to strike where disposals can achieve social, economic or environmental policy objectives which contribute towards the Corporate Plan. In such instances, consideration will be given to the Value for Money that this represents.

The Council has also introduced a Community Asset Transfer (CAT) Strategy, where it considers the transfer of assets to third party groups at less than best consideration to support its objectives. The Council will consider, on a case-by-case basis, the potential transfer of assets to an alternative provider after a full assessment of the long-term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Council's aims and objectives. Where the Council proposes to dispose of or grant a long lease at nil consideration, or at a value below market value, a valuation will be undertaken to ensure that the Council is fully aware of the receipt that it is foregoing as a result of the Community Asset Transfer.

A key principle of the Council's Capital Strategy, **PRINCIPLE 4**, is that, unless specifically agreed by Cabinet for exceptional circumstances, all capital receipts will be treated as general capital funding and allocated according to determined priorities. This supports the "One Council" approach. However, this does not negate the need for Council to approve any proposed schemes from that receipt. One example of where the Council has departed from the principle is with regards to school disposals and the ring fencing of those capital receipts to fund the School Modernisation Band A Programme. There may potentially be other schemes where the Council decides to set aside receipts in this way and these will be approved within the reporting of the Capital Programme.

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal. In relation to development sites it will produce a technical pack which will include site investigations, planning briefs, utilities and drainage information, as relevant. The Council will consider the most appropriate method of disposal by way of private treaty, tender or by public auction. Generally it will dispose of assets on the open market, in order to robustly demonstrate that it has delivered best consideration. However, there will be occasions when it will sell off market to a single bidder. In these instances it will seek an independent valuation to assess the capital receipt and to affirm that best consideration has been delivered.

### **S106 contributions**

Section 106 (S106) Agreements are legal agreements between Local Authorities and developers; these are linked to planning permissions and can also be known as planning obligations. A section 106 agreement is designed to make a development possible that would otherwise not be possible, by obtaining concessions and financial contributions from the developer. Any contributions received from the developer are 'ring-fenced' for the purpose as set out in the relevant S106 agreement and are applied to fund schemes within the capital programme once an eligible scheme has been identified. S106 contribution agreements can be used, for example, for the provision of educational facilities, highways infrastructure, affordable housing, play areas and open spaces, in line with the Council's adopted policy on the use of section 106 agreements. Consideration of available S106 funding should be taken

when agreeing the capital programme for future years to maximise the use of the available funding and reduce the reliance on other sources of funding. Contributions can be time limited in that if they are not spent within an agreed timescale, typically 5 – 10 years, dependent on what has been agreed in the S106 agreement, any funds not spent in line with the agreement would have to be repaid to the developer.

### **Revenue and Reserves**

The Council is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government funding for revenue expenditure, the Council's policy is generally not to budget to use revenue or reserves to directly fund capital projects, unless funding has already been set aside.