

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CORPORATE OVERVIEW AND SCRUTINY COMMITTEE

12 JANUARY 2022

REPORT OF THE CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

CAPITAL STRATEGY 2022-23 TO 2031-32

1. Purpose of report

- 1.1 The purpose of this report is to present to the Corporate Overview and Scrutiny Committee the draft Capital Strategy 2022-23 to 2031-32, which includes the Prudential Indicators against which the Council measures itself during the financial year (**Appendix A**) and for the Committee to provide any comments for consideration in finalising the Capital Strategy for Cabinet and Council approval in February 2022.

2. Connection 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**:

- **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 focussed on raising the skills, qualifications and ambitions for all people in the county borough.
- **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.
- **Smarter use of resources** – ensure 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 to deliver the Council's well-being objectives.

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, provides the regulatory framework for accounting practices to be followed, and contains 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 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a new edition of the Prudential Code for Capital Finance in Local

Authorities. The Code requires 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. A significant change in the Code is that, in order to comply with the Code, an authority must not borrow to invest primarily for financial return. It goes further to clarify that *“it is not prudent for local authorities to make any investment or spending that will increase the capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose”*. The Capital Strategy has been updated to reflect these changes, and 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.

- 3.3 The Capital 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 Capital Strategy includes 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 is 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 22 February 2022, and for Council to approve on 23 February 2022.

- 4.3 The Capital Strategy 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: Focusing 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 Strategy Framework
- Asset Management Planning
- Risk
- Governance and Decision Making
- Capital investment programme and funding
- Managing borrowing

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 The Capital Strategy has been updated to reflect the latest CIPFA Capital Strategy Guidance 2021 and its layout is much changed from previous years. It aims to provide the strategic context for capital investment, and how the Council manages risk in relation to the Capital Programme. It also provides a focus on managing the level of debt to finance capital expenditure and appropriate levels of borrowing. Some of the key changes are noted below.

4.5.1 Capital Strategy Framework

The Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across the Council's services. It is an integral part of the Council's Budget and Policy Framework, as set out on page 4 of the Capital Strategy.

4.5.2 Risk

All projects involve an element of risk, and managing that risk is crucial in contributing towards the successful completion of projects. A particular risk currently facing the Council is the impact of inflation on costs of capital works and challenges in the timing of securing supplies to undertake such works. This is reflected within the section on Risk. Included also is the potential impact of recent changes to restrict Public Works Loans Board (PWLB) borrowing solely for commercial yield. This is also emphasised in the revised CIPFA Prudential Code for Local Authorities. Given the need to borrow to support significant schemes such as 21st Century Schools Band B programme, it is unlikely the Council would wish to consider borrowing purely for commercial reasons as this would prevent it from accessing PWLB borrowing for the Band B programme.

4.5.3 Governance and Decision Making

This section brings together the prioritising of capital schemes, what happens with approvals during the year, how the programme is monitored throughout the year and post project evaluation.

4.5.4 Capital Investment Programme 2022/23 to 2031/32 and Financing

Section 4.0 of the Capital Strategy summarises the 10-year Capital Programme in line with the Council's corporate well-being objectives. It identifies some of the key

projects within the programme and references the detailed 10-year Capital Programme at Annex A of the Capital Strategy. Key indicators are then included at section 5.0 – Funding the Strategy and Section 6.0 – Managing the Borrowing Requirement. These Performance Indicators are crucial in determining the effective management of borrowing to support the Capital Programme and are reported to Cabinet and Council on a quarterly basis.

4.5.5 Minimum Revenue Provision Policy Statement

The Minimum Revenue Provision Policy Statement is now included within the Capital Strategy as a separate section, rather than an Appendix. This ensures its importance of putting aside revenue resources to repay borrowing.

5. **Effect upon 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 Capital 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 Act 2010 implications**

- 6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh language have been considered in the preparation of this report. As a public body in Wales, the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

Projects within the Capital Programme 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 Capital Strategy is a 10 year strategy and considers the need for capital investment over the medium to long term.
2. **Prevention:** the Capital 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 Capital Strategy brings together the capital plans of the Council to ensure the delivery of the well-being objectives.
5. **Involvement:** the Capital 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 well-being 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 2022.

9. Recommendations

9.1 The Corporate Overview and Scrutiny Committee is recommended to:

- Note the Capital Strategy 2022-23 to 2031-32 including the Prudential Indicators 2022-23 to 2024-25 and its associated Schedules (**Appendix A**) and provide any comments for consideration in finalising the Capital Strategy.

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Background documents:

None