

Meeting of:	CABINET
Date of Meeting:	20 FEBRUARY 2024
Report Title:	CAPITAL STRATEGY 2024-25
Report Owner / Corporate Director:	CHIEF OFFICER – FINANCE, HOUSING AND CHANGE
Responsible Officer:	NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT
Policy Framework and Procedure Rules:	<p>The Council’s Financial Procedure Rules (para 3.5.1) requires the Chief Finance Officer to prepare a Capital Strategy for submission to the Council for approval prior to the start of the financial year. The Strategy must demonstrate 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.</p> <p>The Capital Strategy must comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.</p>
Executive Summary:	<ul style="list-style-type: none"> • The purpose of the report is to present to Cabinet the Capital Strategy 2024-25 to 2033-34, which includes the Prudential Indicators, and the Annual Minimum Revenue Provision Statement 2024-25. • Control on capital expenditure is governed by legislation. • The Capital Strategy has been produced in accordance with CIPFA’s Prudential Code for Capital Finance in Local Authorities. • The Capital Strategy sets guiding principles for capital expenditure, and a framework for the management of capital finance. • The Capital Strategy is currently based on financial information as reported in the Medium Term Financial Strategy.

1. Purpose of Report

- 1.1 The purpose of this report is to present to Cabinet the Capital Strategy 2024-25 to 2033-34 (**Appendix A**), which includes the Prudential Indicators against which the Council measures itself during the financial year and the Annual Minimum Revenue

Provision Statement 2024-25 (**Section 7 of Appendix A**), before submitting to Council for approval.

2. Background

2.1 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.

2.2 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. This edition included a significant change in the Code, which 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 draft Capital Strategy has been produced in line with the 2021 Code 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.

2.3 The Capital Strategy should demonstrate how the Council ensures that all 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

3. Current situation / proposal

3.1 The Capital Strategy at **Appendix A** gives 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. In doing so, it includes the prescribed Prudential Indicators for a three-year rolling period.

3.2 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.

3.2 The Strategy emphasises the pressures currently being faced by the Council. Pressures on the capital programme include:

- Increased prices of materials, as a result of the higher inflation rates currently in the UK and further afield, as well as additional costs associated with Brexit;
- Supply chain difficulties leading to higher prices and delays in scheme being completed;
- Recruitment challenges, both within the Council and in companies we contract with, resulting in higher wages and overall contract costs;
- Additional requirements on schemes to achieve Welsh Government's Net Zero commitment, which includes an aim of collectively achieving net zero across the Welsh public sector, which will lead to changes in the way assets are designed and managed, which will likely result in increased costs.

Welsh Government capital funding to local authorities has remained at the same level as recent years and is not expected to increase in the near future. With the Council's capital receipts largely committed to schemes within the capital programme, funding any new schemes is challenging. It may be possible to secure specific grant and other funding to deliver schemes. Whilst the Council is able to borrow to fund capital expenditure, this places a long-term liability on the Council as well as a revenue cost in terms of interest payable. The Council also has to set aside revenue resources to repay the debt, which is a further cost to revenue budgets.

3.3 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.

3.4 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.

- 3.5 Whilst much of the content of the Strategy is similar to last year, changes to Accounting for Leases under International Financial Reporting Standard 16 (IFRS16) will have an impact on the Capital Strategy as current operating leases, where costs are 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. It will also increase the Council's liabilities equal to the value of the right of use asset. It is important to note that this is a change to how these assets are accounted for and the net impact of recognising the asset and liability will be at nil cost to the Council. The underlying need to borrow, or Capital Financing Requirement, will increase by the amount of the right to use asset liability, as will the requirement to put aside revenue to repay the debt, known as Minimum Revenue Provision (MRP). However, the MRP will be regarded as having been met by the annual lease payment, therefore there is no additional cost to the Council of this change in accounting treatment. The implementation of these changes is from the 2024-25 financial year and work is ongoing to fully evaluate the impact of these changes. Indicative figures are included in the Capital Strategy and these will be refined as the impacts are fully understood. Further information is included within the Capital Strategy Framework section of the Capital Strategy.
- 3.6 The Council has strengthened its processes to approve, manage and monitor capital projects. During 2023 the Council established a Capital Programme Board, whose purpose is to ensure close oversight of key projects within the approved capital programme. The Board consists of the Leader, Cabinet Member – Resources, and members of the Corporate Management Board, and is chaired by the Chief Officer – Finance, Housing and Change. Further detail is included within the Capital Strategy at section 3.0 – Governance and Decision Making.
- 3.7 Section 4.0 of the Capital Strategy summarises the 10-year Capital Programme by Council Directorates and identifies some of the key schemes. Key indicators are 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.
- 3.8 The detailed Capital Programme is provided and reported to Cabinet and Council as part of the Medium Term Financial Strategy report, and regular updates are provided throughout the financial year.

4. Equality implications (including Socio-economic Duty and Welsh Language)

- 4.1 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.

Schemes within the Capital Programme will be subject to the preparation of separate Equality Impact Assessments before proceeding.

5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

5.1 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.

5.2 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.

6. Climate Change Implications

6.1 The Climate Change implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

7. Safeguarding and Corporate Parent Implications

7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon Safeguarding and Corporate parenting because of this report.

8. Financial Implications

8.1 The financial implications are included in the report.

9. Recommendation

9.1 It is recommended that Cabinet:

- Consider the report and recommend that the Capital Strategy 2024-25 to 2033-34, including the Prudential Indicators 2024-25 to 2033-34 and the Annual Minimum Revenue Provision (MRP) Statement 2024-25 at **Appendix A** be presented to Council for approval.

Background documents

None