



## Report of the Section 151 Officer

Council - 6 March 2024

### Capital Strategy 2023/24 – 2028/29

<b>Purpose:</b>	To approve the Capital Strategy which informs and shapes the six year capital programme.
<b>Policy Framework:</b>	CIPFA Prudential Code 2021
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that: 1) The Capital Strategy 2023/24- 2028/29 is approved
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#### 1 Introduction

- 1.1 Following the publication of the Revised CIPFA Prudential Code in Dec 2017, it is now a requirement for Authorities to produce a Capital Strategy in addition to its suite of reports which are required by Regulation which outline and support the capital and revenue budgets
- 1.2 The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. The Strategy, therefore, sets out the longer term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes. The Capital Strategy sets out the underlying principles in support of the capital programme presented to Council for approval on this same agenda. It seeks to ensure that each project is supportive of our corporate objectives, has clearly identified funding and has appropriate governance arrangements in place to support decision making and deliver the scheme.

- 1.3 The strategy covers capital expenditure, capital financing and asset management and is one of the key strategies alongside the more operational strategies for these and other areas including Treasury Management, Tax, Property Investment and service areas such as housing and other spending areas. It also gives an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy should support the delivery of the corporate objectives of the Authority and must complement and demonstrate clear links with the:
- The Corporate Plan
  - Swansea: Achieving Better Together, (Post Covid Recovery Plan)
  - The Revenue Budget Report
  - The Capital Budget & Programme Report
  - The Medium Term Financial Plan
  - The Treasury Management, Investment Strategy and MRP Policy Statement Report

and have due regard to :

- The Wellbeing of Future Generations Act 2015

Any addition to the capital programme must be considered in light of the limiting factor of the capital resources available ( as direct funding or the revenue impact of servicing any borrowing required)

- 1.4 The Council's Corporate plan has the following pre-existing well-being priorities:
- **Safeguarding** people from harm - so that our citizens are free from harm and exploitation.
  - Improving **Education and Skills** - so that everyone in Swansea gains the skills and qualifications they need to succeed in life.
  - Transforming our **Economy and Infrastructure** - so that Swansea has a thriving mixed use City Centre and a local economy that will support the prosperity of our citizens.
  - **Tackling Poverty** - so that every person in Swansea can achieve their potential.
  - Delivering on **Nature Recovery and Climate Change** - so that we maintain and enhance nature and biodiversity in Swansea, reduce our carbon footprint and tackle climate change.
  - **Transformation and Future Council development** - so that we and the services that we provide are sustainable and fit for the future.

#### 1.5 Post Covid

The Council has subsequently adopted the Swansea: Achieving Better Together, Transformation Strategy and Programme Framework (Recovery Plan) with which it can plan and deliver services and objectives in the next 5 years directly addressing how the City moves out of the pandemic. It is utilising this framework and its other planning tools that the Council employs to steer the City to recover from the aftermath of the effects of the Covid 19 global pandemic.

- 1.6 In formulating the detailed schemes within the programme of capital expenditure 2023/24- 2028/29 in the Capital Budget report , it can be demonstrated that all projects promote the objectives of at least one or more of the above corporate priorities in 1.4

and included in the capital programme is significant additional capital expenditure to support the economic recovery of the City following the Covid 19 pandemic.

- 1.7 In order to try and better plan the exact timing and relative prioritisation for future capital spend asks, officers have captured expected financial asks for Capital Projects which are at an advanced development stage. To date this has identified spend of circa £50M, some of which are already committed, and which are expected to score fully against the theoretical additional borrowing envelope of up to £50m as set out in the current medium term financial plan. It is deemed theoretical as it is subject to overall capital affordability, future interest rate movements and future revenue decisions to meet the ongoing permanent capital financing costs of servicing the borrowing (the mtfp merely temporarily funds from Capital Equalisation Reserve and defers the borrowing externalisation and ongoing revenue financing decision at present). Beyond these agreed projects there are also potential substantial investments that whilst only estimated at this stage, could lead to capital requirements in the hundreds of millions for not just Corporate Objectives but also to deliver business continuity or statutory compliance (these would include sustainable communities for learning and carbon zero obligations as one large scale example of each type) which are definitively not afforded or factored into the medium or indeed longer term financial plans at this stage .

## **2 The Capital Programme 2023/24 – 2028/29**

- 2.1 The Capital Budget and Programme 2023/24 – 2028/29 for the General Fund and HRA is reported in detail in The Capital Budget & Programme & HRA Capital Programme Reports on this agenda.

## **3 Asset Management Planning**

- 3.1 The programme includes capital expenditure on the following categories of spend:
- Operational – supporting core business and service delivery
  - Investment – to provide a financial return to the Council
  - Regeneration/ Community & Recovery:
    - enabling strategic place shaping and economic growth
    - to support specific local community and regional projects
    - investing in the City to aid recovery from the effects of the Covid 19 pandemic
- 3.2 Operational – Within the capital programme, is a comprehensive schedule of programmed routine repairs and maintenance both on the existing property and housing inventory and the significant portfolio of highways assets.
- 3.3 Investment – It is recognised that, over the long term property offers a sound total investment opportunity, (including yield in the form of contractually agreed rental/lease income and the potential for capital growth in the form of potential asset appreciating in value). The formation of the Property Investment Board has enabled the Authority to take advantage of investing in property with a view to making a financial return, based on robust business case analysis evaluating not only on financial returns but providing strategic control of key sites within the City boundaries.
- 3.4 Historically the PWLB has been the most economically advantageous form of capital financing for the Council. Following the HM Treasury consultation on the PWLB

borrowing process, strict guidance has been issued by HM Treasury which strictly **prohibits** the use of PWLB borrowing for investing in property/commercial assets 'purely for yield'. These changes clearly affect the viability of the Council buying investment assets. However alternative financing (grants, capital receipts and commercial financing) may still be used to fund these 'yielding investments' if the investment metrics still support the business case. It is envisaged that these restrictions in PWLB borrowing shall require continued very robust business case appraisal and risk management to ensure any such investment is in the best interests of the Council. Any such investments shall be subject to the governance process identified in 5.1

### 3.5 Public Works Loan Board (PWLB)

HM Treasury made a shock determination on the 9<sup>th</sup> October 2019 affecting all future borrowing from the Public Works Loan Board (PWLB) which would now be subject to an additional 1.00% 'premium' over and above existing margins above prevailing Gilt yields, primarily in response and to deter exponential growth in borrowing to fund speculative investment by a small number of local authorities in England. Strong representations were made via WLGA, and WG about the negative impact this change would have on capital programmes in progress throughout local authorities in Wales.

Following the strength of representations, HM Treasury launched a consultation process on the PWLB borrowing process. The results of the consultation and accompanying guidance was issued in November 2020 when the 1.00% premium was removed. The accompanying guidance outlines what constitutes eligible expenditure for PWLB borrowing:

The guidance clearly prohibits 'investing primarily for yield' which it defines as:

*Investment assets bought primarily for yield would usually have one or more of the following characteristics:*

- a. buying land or existing buildings to let out at market rate*
- b. buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification*
- c. buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly*

The guidance DOES allow borrowing for regenerative purposes, which it defines as:

*Regeneration projects would usually have one or more of the following characteristics:*

- a. the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector*
- b. the local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment*

*c. the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value*

*d. while some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services*

*Preventative action would have all of the following characteristics:*

- a. the intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease*
- b. there is no realistic prospect of support from a source other than the local authority*

The guidance is also clear that PWLB borrowing cannot be used to replace other Council funds which are then used to finance the 'primarily for yield' investment.

### **3.6 Regeneration/Community & Recovery**

It can be seen from the "*The Capital Budget and Programme 2023/24 – 2027/28*", that the capital programme contains a comprehensive programme of major construction projects requiring material capital funding :

A significant portion of the current capital programme is comprised of a number of major regeneration and community construction programmes being undertaken by the Authority:

The updated total Capital programme which includes QED/Sustainable Communities for Learning Schools Programme and Swansea Central City Deal schemes highlights a 5 year forward expenditure programme plus 2023/24 of £431.532m identifying an unsupported borrowing requirement of £147.559m . The capital planning envelope for unsupported borrowing requires significant revenue funding to service the finance and this is set out in both the reports on the revenue budget and the medium term financial plan.

Phased, considered affordable borrowing, within the overall planning envelope has developed over recent years and, in the case of the funding, from the City Deal, across the next 10 years. Some Major schemes within the General Fund Capital Programme which are partially or fully financed by borrowing are as follows:

- Swansea Central Arena phased development
- Digital Village, 71-72 Kingsway offices
- Community hub development
- Castle Square Regeneration
- Palace Theatre development
- Swansea Vale new car park where borrowing will be financed by future rental income.

Although there is significant accompanying grant funding and City Deal funding for a number of these schemes, there is a substantial unsupported borrowing requirement to underwrite these schemes

### 3.7 Schools Programme and Financing 2023/24 – 2028/29

In July 2017 Cabinet endorsed the council's Band B of the 21<sup>st</sup> Century Schools Strategic Outline Programme and the proposed capital investment priorities. Since the initial approval there have been several other changes within the programme. The Welsh Government capital grant intervention rate was set at 50% for Band B, but Welsh Government announced on 21 November 2018, that the Band B intervention rate for capital projects would be increased to 65%, and for special schools and PRUs to 75%. The intervention rate for voluntary aided projects remained unchanged at 85%. In September 2023, Cabinet endorsed an uplift to the programme envelope to £176m, with a switch to wholly capital funding (instead of using the Mutual Investment Model for some of the projects).

Since 2017, the remaining Band A project – a new build for Gorseinon Primary School – has been completed. The completed Band B projects are new builds for the Pupil Referral Unit (Maes Derw), YGG Tan y Lan and YGG Tirdeunaw, and new blocks and refurbishment and remodelling for Ysgol Gyfun Gwyr and Bishopston Comprehensive School.

Band B ends on 31 March 2024 and councils are now required to submit a new Strategic Outline Programme (SOP) to the Welsh Government for a rolling programme by 31 March 2024.

The nine-year capital programme, extending to 2032/33 and including an indicative funding forecast for the nine years, is required to be submitted to the Welsh Government for consideration towards providing a commitment and support for the first three years along with in-principle support for years 4, 5 and 6. Years 7 to 9 will reflect the longer-term project pipeline. Band B projects not yet completed can be included at the beginning of the nine-year capital programme.

The new draft rolling programme is the subject of a separate report on the agenda which details the expected costs and funding. Following this report the Strategic Outline Programme must be submitted by 31<sup>st</sup> March 2024 for scrutiny by WG policy teams over a period of several months.

If approved, each of the investment priorities will be subject to detailed business case development and further WG approvals, together with separate reports to Cabinet for decision. Some of the priorities may require statutory consultation and catchment area reviews. These will be the subject of separate Cabinet reports

#### Swansea Central City Deal Programme and Financing

- The Swansea Central City Deal Phase 1 Arena scheme construction phase was approved at Cabinet on 21 November 2019 at a cost of £134.837m, subsequently increased for additional elements to £135.1m. The detailed outstanding financing for this scheme is shown in the capital programme report and spend will be funded from a combination of City Deal grant, capital receipts and unsupported borrowing.

Swansea Central City Deal Phase 2 Digital Village scheme construction has commenced on site. The current approved financing for this scheme at a total of £41.592m is shown in the capital programme report which is funded from a combination of City Deal grant, unsupported borrowing and contributions.

Notwithstanding this scale of ambition, each major scheme will, as is always the case, be considered on the overall merits of each business case, both in capital cost, and revenue income streams where appropriate, and unsupported borrowing will be undertaken on a phased basis within the overall medium/long term envelope of affordability. The Council continues to face significant challenges delivering the Capital Programme during uncertain economic times with high inflation impacting on capital budgets.

### **3.8 HRA More Homes, Welsh Housing Quality Standards (WHQS), De- Carbonisation and Energy Efficiency**

A programme of council house refurbishment and new council house building, utilising new borrowing powers to invest in new Council housing stock. The More Homes Strategy for providing new Council housing has been endorsed by Council.. Cabinet has approved a target of 1,000 new council homes from 2021-2031, and this 4 year programme will enable the acquisition and construction of around hundreds of new council homes. This will also include the acquisition of properties and land to develop for council and affordable housing. Delivery will be aided through partnerships which will increase capacity and pace in the programme. After having attained the Welsh Housing Quality Standard, the approved programme identifies the transition into WHQS Maintenance Phase, where the focus is on ensuring homes are safe and secure , in a good state of repair, adequately heated fuel efficient and well insulated and suit the requirements of the household. The Welsh Government will be introducing new standards that will require social landlords to further improve their housing stock in order to reduce occupancy borne carbon emissions and increase energy efficiency. The aim is to bring these into line with the Welsh Government's Decarbonisation agenda. Their Better Homes, Better Wales, Better World report sets out a number of recommendations and has an overall objective to reduce carbon emissions in social housing by 95%.and the current programme includes the introduction of solar panels and battery storage to planned schemes which will on average require material investment each year across the 4 years. This investment is affordable within the HRA business plan. This investment will contribute towards reducing carbon emissions and create a platform for future measures but will not deliver carbon zero properties

### **3.9 Covid 19 Pandemic Response**

The robust asset management planning processes outlined above in 1.3, 1.4 and 3.1. could not have foreseen the speed and depth of impact of the global Covid 19 pandemic which took hold in March 2020. It is testament to the inherent robust, resilient professional, efficient asset management, corporate building services, legal support, procurement, finance and treasury management services operating within the Council which allowed it to design, allow planning consent , contract with partners, finance, insure and build and handover a 1,000 bed Covid 19 Field Hospital in 3 months, being fully operational in June 2020. The facility has subsequently been modified to support the national Covid 19 vaccination and booster programme. Included in the capital programme are various initiatives to support the City and its citizens recover from the effects of the pandemic.

## 4 Commercial Activity & Property Investment

- 4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition
- 4.2 In the context of the Capital Strategy, the council can use capital to invest in property and or infrastructure assets to provide a positive surplus/financial return. The council may fund the purchase of the property/infrastructure by borrowing money, ( although as identified in 3.4 above, this now **precludes** PWLB). The income generated should cover the cost of servicing and repaying the borrowed money each year. If an annual surplus is generated, this can be used to support the council's budget position, and enables the council to continue to provide services for local people. The business case process shall now need to be a more challenging/rigorous in light of the PWLB position in relation to investing purely for yield. Alternative sources of commercial funding usually carry a premium compared to usual prevailing PWLB interest rates, therefore this sets a higher bar for the commercial returns expected from investing into the asset and as such the business case and risk management process shall need to continue to be extremely robust before any such investment is made.
- 4.3 The reasons for buying and owning property investments are primarily:
- Strategic control of key City sites
  - Economic development and regeneration activity in the City ( all investment property is within the City & County boundaries)
  - Market and economic opportunity.
- And only incidentally:
- Financial returns to fund services to residents
- 4.4 Historically, property has provided strong investment returns in terms of capital growth and generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant
- 4.5 The strategy makes it clear that the council will continue to consider investments on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process. However the source of finance needs to be robust and the interest rates available need to be viable and support each business case. In light of this, it is expected that commercial property investment activity shall be reduced.
- 4.6 The Authority has well established gateway mechanisms to appraise and evaluate all such investment opportunities. There are numerous recent examples of local authorities in England where the lack of investment discipline and due diligence has had far reaching punitive financial consequences resulting in S114 notices for the Councils concerned .



## **5 Governance & Oversight**

5.1 The Council has a well-established corporate governance framework with which to manage, monitor and quality assure the delivery of the capital programme:

- Cabinet
  - Approval of large schemes/programmes
- Capital Budget Monitoring Cycle
  - Quarterly monitoring of progress against budget/programme
- Contract Procedure Rules
  - Identifies most appropriate procurement route for project
- Financial Procedure Rules
  - Identifies appropriate scheme approval limits and budget virements/overspends thresholds
- Regeneration Programme Board
  - Monitors all regeneration programme schemes for progress against time, budget, quality
- Housing Futures Programme Board
  - Monitors all Housing schemes for progress against time, budget, quality
- Sustainable Communities for Learning Programme Board
  - Monitors all Sustainable Communities for Learning Programme schemes for progress against time, budget, quality
- Risk Register
  - Corporate framework for monitoring corporate risks (including major capital schemes)
- Grants & Capital Manual
  - Outlines the corporate capital & grant protocols, procedures and practices for compliance by practitioners within the organisation

## **6 Capital Financing Strategy**

6.1 The Council's adopted capital financing strategy is to:

- maximise external private investment
- maximise external grant funding
- maximise capital receipt income
- finance self-funding income generative schemes
- minimise external borrowing
- minimise external funding costs

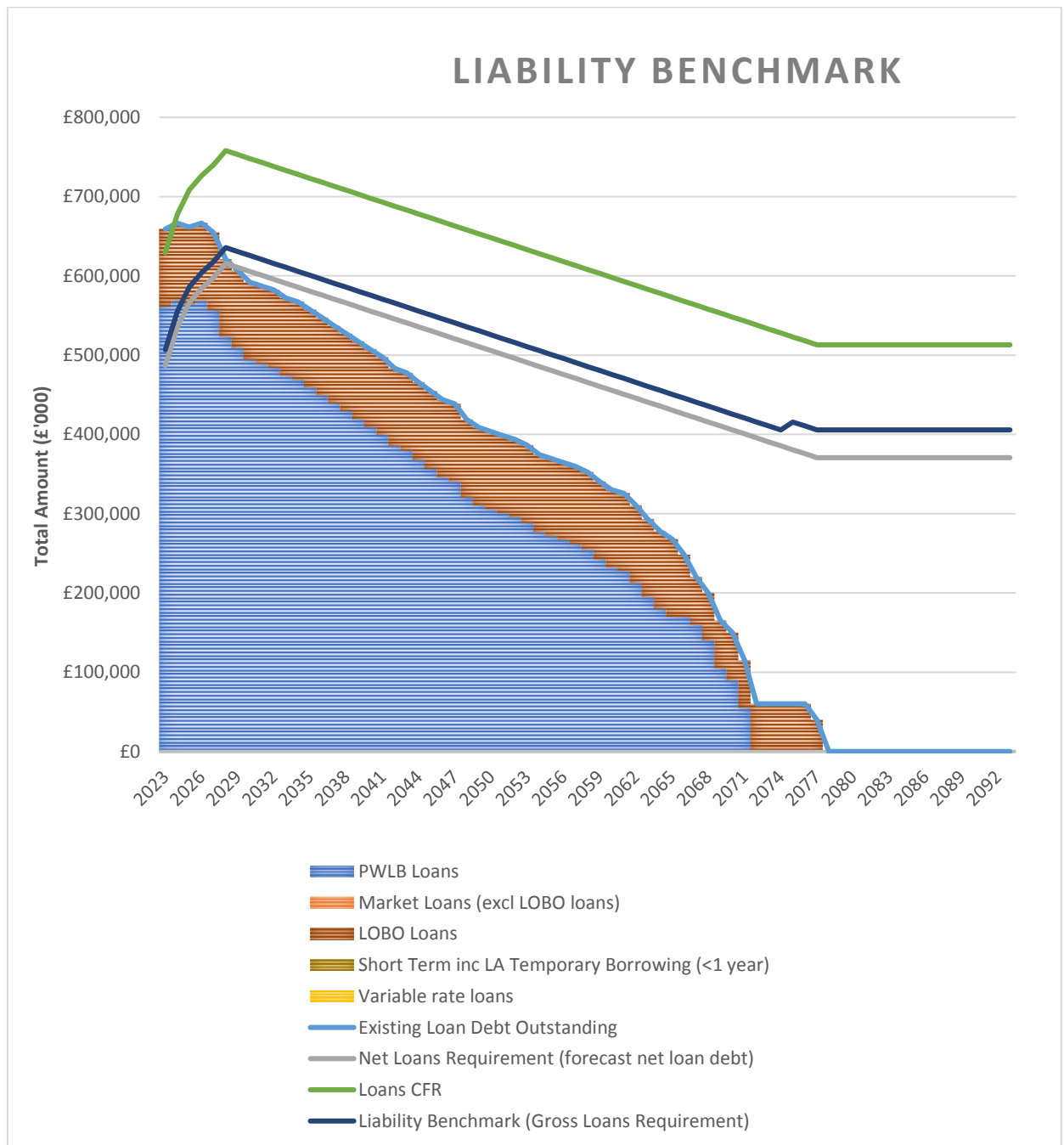
6.2 In the current difficult financial climate, capital allocations are constrained and the financing of prioritised schemes need to be carefully considered. In light of the continuing pressures on the revenue budget, unsupported borrowing is only to be utilised if there is a clear business case for expenditure and other sources of finance have been fully explored and ruled out. The corollary of austerity is that PWLB capital financing is still

at relatively( long term) low levels, following the removal in Nov 2020 of the PWLB 1% premium introduced in Oct 2019, however PWLB borrowing cannot now be used in 'purely for yield' property investments as outlined in 3.4. but may still be used for operational and regeneration capital schemes. It should be noted that the Treasury Management Strategy Statement already forecasts interest rate rises for the short/medium term which make the recent external PWLB funding drawn down particularly prescient.

- 6.3 The S151 Officer has undertaken an analysis of the sustainability and affordability of the capital plans approved to date and shall continue to provide clear advice on the affordability of any additions to the capital programme, however it needs to be recognised that capital resource and importantly the revenue resources available to support any borrowing are both limited and finite. The robustness of the capital financing strategy is paramount in light of recent experiences in local authorities in England where overstretched flawed capital programmes has resulted in the ultimate financial failure of the Council.

## **7 Treasury Management Strategy**

- 7.1 The Capital Strategy and the Capital Programme is intrinsically linked to the Treasury Management Strategy employed to fund the programme. The capital programme determines the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. The Council approves its Treasury Management Strategy, Investment Strategy and Minimum Revenue Policy in a separate report on this agenda.
- 7.2 The Council is required to produce a liability benchmark informed by its underlying need to borrow, otherwise known as the Capital Financing Requirement (CFR), mapped against its actual levels of debt entered into. The attached is a projection of the benchmark as informed by the current capital programme. It can be seen that the benchmark enters into net repayment mode from 2026/27 as the current programme peaks, but in reality the ongoing capital programme shall be refreshed on an annual basis with new commitments and ongoing financing shall be required.



## 8 Revenue Impact of The Capital Programme

- 8.1 Unsupported borrowing has a direct impact on the revenue budget, with revenue required to support both interest and principal repayments. The associated capital financing costs of a project are thoroughly considered when appraising a potential capital investment. The revenue impacts are considered in light of affordability, prudence and sustainability whilst considering the long term impact and benefits of a considered capital programme. The revenue impact of the capital programme are outlined in the Medium Term Financial Plan, which is also presented on this agenda.
- 8.2 The S 151 officer has carefully considered the impact of the many variables and unknowns inherent in the funding of the presented capital programme (e.g. Brexit impact, volatility of markets, timing of City deal funding, variability of direct capital grant funding, impact of MRP review on equalising principal repayments in later years,

inflation, interest rate variation) and has sought to mitigate the impact of the funding of the capital programme on the revenue account with the establishment of the capital equalisation reserve. The utilisation of the reserve recognises the future obligations arising out of the committed capital programme whilst prudently mitigating that impact on the revenue account by adopting professional judgement in reserving appropriately at this time in the capital equalisation reserve.

## 9 Risk Appetite

9.1 Under CIPFA guidance, a local authority is required to outline its risk appetite in respect of its investment activities.

9.2 For the purpose of this statement, the Authority has referenced the Orange Book (UK government publication on the strategic management of risk within government) definition of Risk Appetite, namely:

*“the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time.”*

It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, one has to take some measure of risk. Therefore, risks need to be considered both in terms of threats to the Council as well as positive opportunities. It is worth noting that the Public Accounts Committee supports well-managed risk taking across government, recognising that innovation and opportunities to improve public services requires risk taking, providing that the ability, skills, knowledge and training to manage those risks well, exist within the organisation or can be brought to bear from outside.

9.3 The risk appetite statement sets out how we balance risk and return in pursuit of achieving our objectives. It is intended to aid careful decision-making, such that the Council takes well thought through risks to aid successful delivery of its services and obligations, while also understanding the adverse aspects of risk undertaken and taking appropriate measures to mitigate these in line with its stated goals. Thereby, the Council’s risk judgements are more explicit, transparent and consistent over time.

9.4 The risk appetite statement shall form a key element of the Council’s governance and reporting framework. In addition, the risk appetite will be considered annually and monitored on an ongoing basis by senior management, advisors, Audit Committee and Scrutiny Panel as appropriate.

9.5 It is important to note that the risk appetite is a high level view on the key areas of risk and the qualitative quantum therein that the Council is willing to accept in pursuit of its objectives. In this, it is different to other key aspects of risk management, primarily:

- The risk universe – a detailed list of all the potential risks the Council is exposed to.
- Risk capacity – the maximum level of risk the Council can run given its reserves, revenues, and access to funding, liquidity, regulatory and legal constraints, and any other restrictions.
- Risk tolerance – the maximum amount and type of risk that the Council is willing to tolerate on a prudent assessment.

- 9.6 The risk appetite is also supported by the following:
- The Council's risk management framework
  - The governance structure and responsibilities
  - Risk reporting
  - Monitoring and escalation procedures

It should be noted that aspects of these will be bespoke to individual areas where risk is undertaken, e.g. managing the treasury portfolio, GDPR,

- 9.7 In general, the Council's risk appetite is expressed through its tolerance to risk in respect of capital preservation, meaningful liquidity and income certainty and volatility. The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements. The benefits of this approach were apparent in the ability to fund the building of the 1,000 bed Covid 19 Field Hospital until such time, the Council could be reimbursed by WG.

- 9.8 The Council is exposed to a broad range of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that manage oversight and efficiency.

- 9.10 Managing the Council's risks is an area of significant focus for senior management and members, and the Council adopts an integrated view to the management and qualitative assessment of risk. The Council aims to minimise its exposure to unwanted risks – those

risks that are not actively sought and which carry no commensurate reward for the Council – through a range of mitigation strategies to the extent that it is cost-effective to do so. Specifically, the Council has no appetite for reputational risk, governance risk and currency risk.

For other risks, the Council’s appetite is as follows:

<b>Risk</b>	<b>Appetite</b>
Financial	<p>Moderate appetite for a range of asset classes, property and longer-term investments, subject to careful due diligence and an emphasis on security as well required liquidity profile.</p> <p>Lower appetite for capital growth oriented investments versus income generating investments.</p> <p>No appetite for currency risk, emerging markets and high volatility investments.</p>
Macroeconomic	<p>High appetite for exposure to local economic growth. Moderate appetite for exposure to national and global growth.</p> <p>Low appetite for interest rate risk, and inflation risk.</p> <p>No appetite for geopolitical risks and tail risk events.</p>
Credit & Counterparty	<p>High appetite for investment grade or secured credit risk, as well as exposure to highly rated counterparties and financial institutions with strong balance sheets.</p> <p>Lower appetite for unsecured non-investment grade debt. All subject to careful due diligence and an assessment of the transaction capacity, funding needs, broader goals and cashflow requirements.</p>
Operational	<p>Low appetite for BAU (Business as Usual) operational risks such as pricing errors, errors in administration, IT, cybersecurity</p>

	<p>etc. The Council maintains Risk Registers for key initiatives and significant investments to assess and mitigate specific risks on a more granular level. Business continuity plans have also been established to mitigate external occurrences.</p> <p>No appetite for fraud, regulatory breaches and exceeding risk tolerances.</p>
Strategic	<p>High appetite for strategic initiatives, where there is a direct gain to the Council's revenues or the ability to deliver its statutory duties more effectively and efficiently.</p>
Environmental & Social	<p>No appetite for environmentally negative risks.</p> <p>Very low appetite for social risks, especially in the local region and always subject to full due diligence.</p>

9.11 Risk management is not a stand-alone discipline. In order to maximize risk management benefits and opportunities, it is integrated with existing business processes.

## 10 Skills & Knowledge

10.1 It is important that the Authority has the appropriate staff with the right skills, knowledge and expertise with which to deliver the capital strategy and the programme.

10.2 The Director of Place has operational responsibility for the delivery of the capital programme and has management responsibility for:

- Building Services (including procurement of Education Capital Programme)
- Property Services
- Regeneration & Planning Services
- Highways and Transportation
- Housing

where the staff are appropriately qualified as engineers, quantity surveyors, town planners, housing professionals, electricians, carpenters, subject matter experts and building professionals. Where required, external professionals are engaged and the appropriate framework/procurement route is adopted.

10.3 The financial management and budget monitoring of the capital programme is the responsibility of the S 151 Officer/ Director of Finance who is a CCAB qualified accountant and is supported by professionally CCAB qualified finance staff and

technicians in providing the financial oversight and strategic financial advice for business case appraisal and ongoing monitoring of the capital programme.

- 10.4 The Head of Commercial Services is responsible for ensuring appropriate internal and external procurement and commissioning procedures are adhered to, ensuring that best value is achieved.
- 10.5 The Chief Legal Officer is responsible for ensuring legal compliance in the execution of contracts and completion of legal agreements in relation to the capital programme.

## **11 Legal Implications**

- 11.1 The regulations requiring Authorities to have regard to The Prudential Code are issued under part 1 of The Capital Finance Act 2003. The code and subsequent guidance was revised in 2017, 2018 and 2021 respectively. The 2017 Code now requires the production of a Capital Strategy.

## **12 Financial Implications**

- 12.1 The financial implications of this strategy are outlined in the Capital Programme, Medium Term Financial Plan, Revenue Budget and Treasury Management Strategy and Investment Strategy also on this agenda.

## **13 Integrated Assessment Implications**

- 13.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.
  - Deliver better outcomes for those people who experience socio-economic disadvantage.
  - Consider opportunities for people to use the Welsh language.
  - Treat the Welsh language no less favourably than English.
  - Ensure that the needs of the present are met without compromising the ability of future generations to their own needs.
- 13.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.
- 13.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and



social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

- 13.4 An integrated impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report. All future programs and schemes covered within this report will be subject to their own Integrated Impact Assessment process.

**Background Papers:** None

**Appendices:** None