



REPORT TO: SPECIAL MORAY COUNCIL ON 24 JANUARY 2024

SUBJECT: CAPITAL STRATEGY

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 To ask Council to approve the amended Capital Strategy presented in draft as **APPENDIX 1** to this report.
- 1.2 This report is submitted to Committee in terms of Section III (B) (1) of the Council's Scheme of Administration relating to consideration of the financial and budgetary policy of the Council.

2. RECOMMENDATION

- 2.1 **It is recommended that Council approve the amended Capital Strategy as set out in APPENDIX 1.**

3. BACKGROUND

- 3.1 The Council's current Capital Strategy was approved by the Council at its meeting on 2 February 2023 (paragraph 12 of the Minute refers).
- 3.2 The Prudential Code governs the Council's capital expenditure. The Code states that the capital strategy should be tailored to local circumstances ensuring that each local authority will be able to determine its own prerequisites for their capital strategy, while taking into account any statutory requirements. The draft revised Capital Strategy at **APPENDIX 1** complies with the Prudential Code 2021 and continues to follow the 2021 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Capital Strategy and its emphasis on a whole organisation approach to capital planning.
- 3.3 As a document, the Capital Strategy complements other documents such as the Council's Treasury Management Strategy. The Capital Strategy is not intended to be a technical document, but instead viewed as an accessible document, which sets out the context in which decisions about capital expenditure are to be made. This revised Capital Strategy sets the context for approving the Capital Plan for 2024/25, which is the subject of a further report to this meeting of Council.

3.4 The draft Capital Strategy at **APPENDIX 1** sets out:

- what constitutes capital expenditure;
- why the Council undertakes capital expenditure;
- how the capital programmes of the Council relate to Council priorities and other Council policies;
- the link between asset management and capital planning;
- how the Council finances capital expenditure;
- the main aims of Treasury Management;
- the Council's governance arrangement for approving and monitoring capital expenditure;
- the risks the Council is exposed to from its capital programmes;
- how the Council accesses appropriate knowledge and skills;
- shows diagrammatically the links between different bodies, plans and processes and the Council's capital plans.

3.5 The Council's indicative ten year plan is recognised as being unaffordable in the long term and the draft revised Capital Strategy addresses this issue, by proposing that after slippage anticipated in 2024/25 is accounted for, a cap on prudential borrowing is set, thus limiting proposed capital expenditure. The cap is proposed to be calculated with reference to the Council's approved Performance Indicator for percentage of revenue budget spent on servicing debt. The cap will require significant scaling back on current proposals for capital investment and the way in which it would be applied across asset classes over coming years requires careful consideration. Work will now be undertaken as a matter of urgency to determine that approach and the impacts which the iterative approach set out in the strategy will inevitably have on asset standards and/or the asset base. Progress will be reported and the strategy and 10 year plan reviewed again accordingly.

3.6 All proposed amendments are made in tracked changes. There are no other substantive amendments proposed.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The Capital Strategy indicates the links between the LOIP and the Council's Corporate Plan and the Council's planned capital expenditure

(b) Policy and Legal

Part 7 of the Local Government in Scotland Act 2003 requires local authorities to have regard to the Prudential Code.

(c) Financial implications

There are no financial implications arising directly from this report but restriction by means of a cap on expenditure will have implications for asset standards and the asset base. The Capital Strategy is one of a number of documents which assist in the Council's financial planning process.

(d) Risk Implications

There are no risk implications arising directly from this report. The Capital Strategy indicates risks associated with capital expenditure plans and introduces measures to deal with the risk the Council is exposed to from inflation and in particular rising construction costs and increased interest rates. There may be risks to service delivery which arise from application of the cap on capital expenditure and these will be reported as they are identified.

(e) Staffing Implications

There are no staffing implications arising directly from this report. Any staffing implications which arise from application of the cap on capital expenditure will be reported as they are identified.

(f) Property

There are no property implications arising directly from this report. Any property implications which arise from application of the cap of capital expenditure will be reported as they are identified.

(g) Equalities/Socio Economic Impact

There are no implications for equalities or the socio-economic duty arising directly from this report.

(h) Climate Change and Biodiversity Impacts

There are no climate change or biodiversity issues arising directly from this report. The revised Capital Strategy continues to recognise climate change as a Council priority which will have implications for the Council's capital plan.

(i) Consultations

Members of the Council's Asset Management Working Group, CMT/SMT and Tracey Sutherland, Democratic Services Manager have been consulted in the preparation of this report.

5. CONCLUSION

5.1 The Council's Capital Strategy has been revised as part of the financial planning process

5.2 The Strategy underpins the Council's 10 year indicative Capital Plan.

5.3 The Strategy incorporates setting a cap on capital expenditure for reasons of affordability with further work required to determine the way in which the cap will impact across asset classes.

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Background Papers:
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