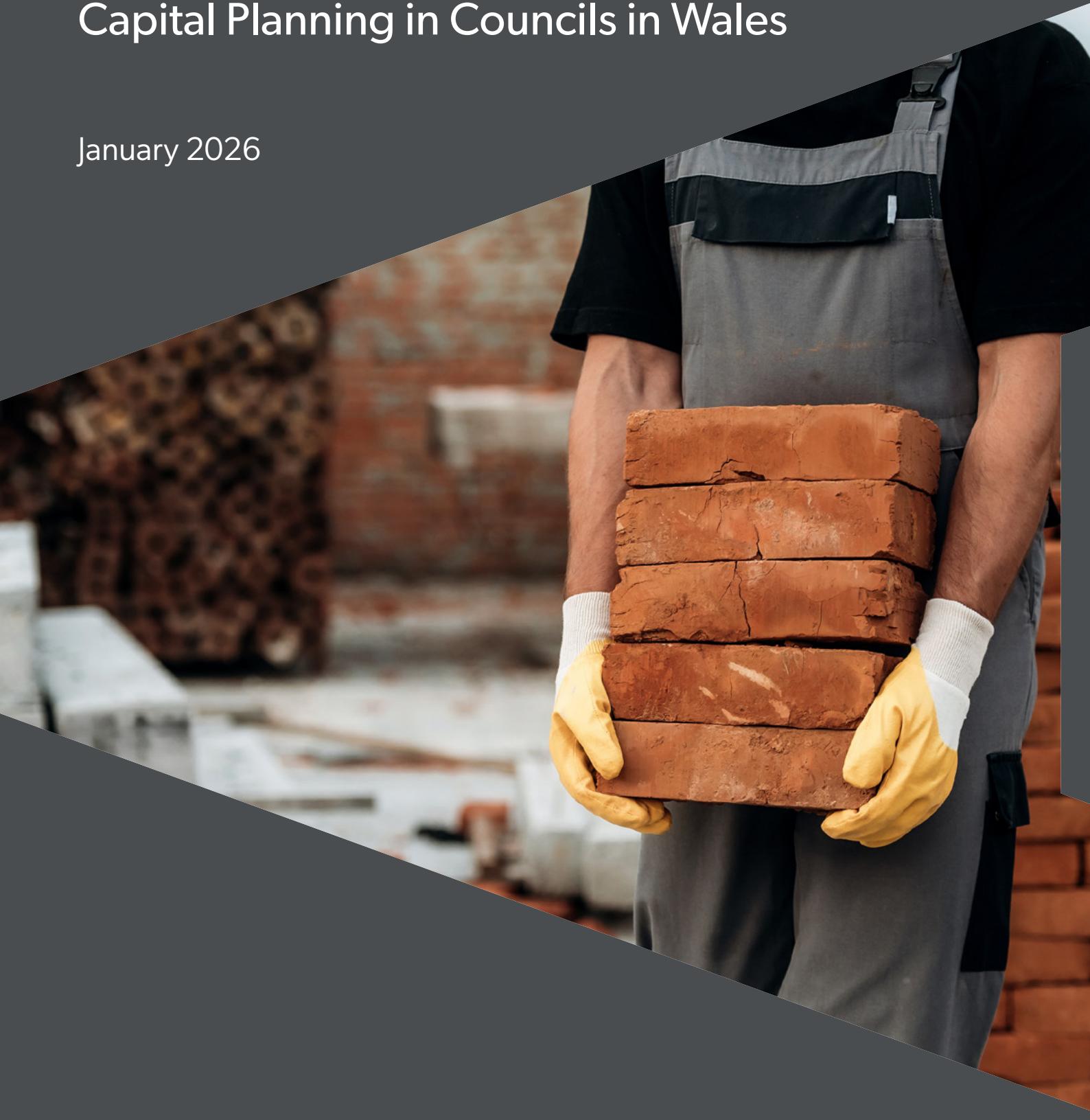


The Building Blocks?

Capital Planning in Councils in Wales

January 2026



We have prepared this report under section 41(1)(a) of the Public Audit (Wales) Act 2004 and section 145A(1) of the Government of Wales Act 1998, and present it to the Senedd under section 145A(6) of the Government of Wales Act 1998.

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Foreword

Capital spending by councils is critically important for their day-to-day delivery of services. It covers a wide range of projects. For example, this could include spending on building schools, enhancing libraries, and buying equipment used to provide social care. Councils spent almost £2 billion in 2023-24 across the range of services. Getting the right asset, at the right time, for the right price is central to providing not just essential services but also value for taxpayers' money.

Councils have delivered significant capital projects in the past. Examples include many recent new schools or school improvements. Councils must also manage the less high profile, but equally important, maintenance of sometimes ageing assets, at a challenging time for public finances. These challenges are significant and do not make the delivery of new or improved assets easy.

I have looked at how well councils plan to do this. Councils must balance spending on new assets to meet demand pressures, against the significant financial challenges they face. I recognise that this is an incredibly difficult balance to get right. It underlines, however, the importance of putting value for money at the centre of capital spending decisions.

A large proportion of capital spending is funded by grants. This means it is important that processes for allocating and monitoring grant funding help get the best value for money. I heard from some councils that they felt obliged to do their best to access funding, even when this came with conditions that did not match their local plans or priorities. I also heard concerns around the complexity of grants processes.

I recognise that deciding which grants to offer and their conditions are for funders, such as the Welsh Government, to decide. Grants can help funders to deliver national priorities. However, this can sometimes mean that capital spending may not be helping to meet needs that have been identified as priorities locally. Sometimes, locally identified needs and priorities may differ from national policy priorities. This reinforces the need for dialogue between councils and the Welsh Government to ensure that grant funding processes are as efficient and effective as possible.

My report identifies several suggestions to help councils improve their approach to capital planning. As with any area of spending, being clear on aims and intended outcomes is key to assessing if you are achieving value for money. I found that it is not always clear how capital plans are helping councils to deliver their priorities. As a result, it is very difficult, for councils to know whether they are achieving value for money.

Clearly linking outcomes and the intentions of capital investment is a theme I also raised in my recent review of the Wales Infrastructure Investment Strategy.

I have also emphasised the need for councils to improve their understanding of the condition of their current assets. Without this understanding, there is a risk that councils do not understand how much they will need to invest in the future and identify the scale of funding gaps. Ensuring good governance of capital planning is also crucial. It is inevitable due to the financial situation that difficult decisions will continue to need to be made. It is therefore important that councillors are equipped to be able to take decisions on capital plans and scrutinise their progress and impact as they are delivered.

Overall, there are opportunities to make value for money a clearer focus of capital plans and capital spending. I also re-emphasise my view that public bodies should accelerate how they think and apply the sustainable development principle consistently in their plans and actions.¹ I hope my report helps councils and the Welsh Government to reflect on these opportunities.



Adrian Crompton

Auditor General for Wales

1 Audit Wales, No time to lose, April 2025



Audit snapshot

What we looked at

- 1 We looked at how councils plan their capital spending. We focused on councils' annual capital programme and capital strategies. We considered how well informed these plans are and if they clearly set out their intended outcomes. We also looked to see if they take account of things like current condition of assets and available resources to deliver them. We also looked at how well councils inform councillors on their capital spending to help make sure there is effective oversight.
- 2 We designed our work to provide an overall view of how councils plan their capital spending. We also looked to find any common issues for both councils and the Welsh Government to consider. We used our findings to inform our recommendations to improve the value for money (VFM) councils achieve from their capital planning.
- 3 We did not look at the approval or progress of individual capital projects as these are policy decisions for councils to take. We also did not assess the content of councils' capital programmes, or the merits of their aims and ambitions for the same reason.

Why this is important

- 4 Councils deliver significant numbers of new assets for their areas every year. Capital spending enables councils to provide a range of services to residents. It pays for both the buildings and land used to host services, and the equipment used to provide those services. It is, therefore, spending that provides the places, spaces and tools for councils to deliver services for residents.
- 5 We refer to the results of capital spending as being assets. As councils provide a wide range of services, the type of assets bought or built can vary significantly. Councils can own assets to provide services required by law, like schools, housing, or libraries. They can also own assets to provide discretionary services, like shopping centres, leisure centres, or theatres. Capital spending, therefore, influences both the costs, and income available, to councils. Getting this right is key to councils securing VFM.

- 6 Councils currently face significant financial challenges that make delivering capital projects hard. It means also that delivering VFM is especially important.² We recognise that the costs of capital spending are hard to balance with day-to-day spending (known as revenue spending). Costs can include the interest costs of borrowing money or contributing to projects from revenue budgets. Revenue spending can often help councils to meet some challenges more quickly, including helping to manage demand for services.³ Capital projects can typically take longer to complete, which can make them harder to justify when faced with increased demands for day-to-day services.
- 7 However, not spending money on capital plans, can potentially lead to higher costs over time. For example, from high maintenance costs for older assets instead of building new ones. Inflation in the costs of construction can also mean delaying spending costs more in the long term. It can also mean worse outcomes if current assets are no longer suitable for delivering modern services. All of this can also mean higher costs in the future and put further pressure on already challenging budget positions for councils.
- 8 Getting this balance right is both difficult but important to ensure VFM both now and over the longer term. We recognise this is a difficult balance to strike for councils.

- 2 We describe what we mean by VFM in capital planning in **Exhibit 2**.
- 3 We have recently reported on the revenue pressures and demands in our financial sustainability reports. This included at a local level in each council and our national summary, published in November 2024.

What we have found

- 9 Councils have a long track record of delivering significant capital projects and have worked hard to maintain assets against a backdrop of increasing financial pressures. We recognise the difficult environment that councils are operating in. In this context, we hope this report will help councils to reflect on their own arrangements and identify opportunities for improvement where relevant.
- 10 Overall, we have identified some areas where we think councils could reflect on how they might improve the way they plan their capital spending. Some of the issues we have identified relate to how capital funding is allocated by the Welsh Government. We found that:
 - grant funding processes do not always help councils to plan for the longer term or provide VFM;
 - the intended outcomes of capital plans are generally not clearly set out by councils;
 - the reasons for the need for capital spending are not always clearly set out by councils;
 - reports on capital spending do not usually focus on the VFM achieved from that spending.

What we recommend

- 11 We recommend that councils review their capital planning against our checklist. The checklist sets out key aspects of sound capital planning, informed by our audit criteria. As part of this we have recommended that councils focus on training for councillors in capital planning, ensuring that asset condition information is up to date, and routinely assess the effectiveness of capital projects.
- 12 We also recommend that the Welsh Government review its processes around the award of restricted grant funding.

Key facts and figures



£1.92 billion – the total capital spending by Welsh councils in 2023-24.



83% – the proportion of total capital spending in 2023-24 by Welsh councils on new construction, conversion, and renovation.



£1.04 billion or **54%** – the total of capital spending by councils funded by grants in 2023-24 (at June 2025 prices).



Since 2000-01, grants have been the **largest source of funding** for capital spending by councils.



£0.57 billion or **30%** – the total capital spending by councils funded by borrowing in 2023-24.(at June 2025 prices).



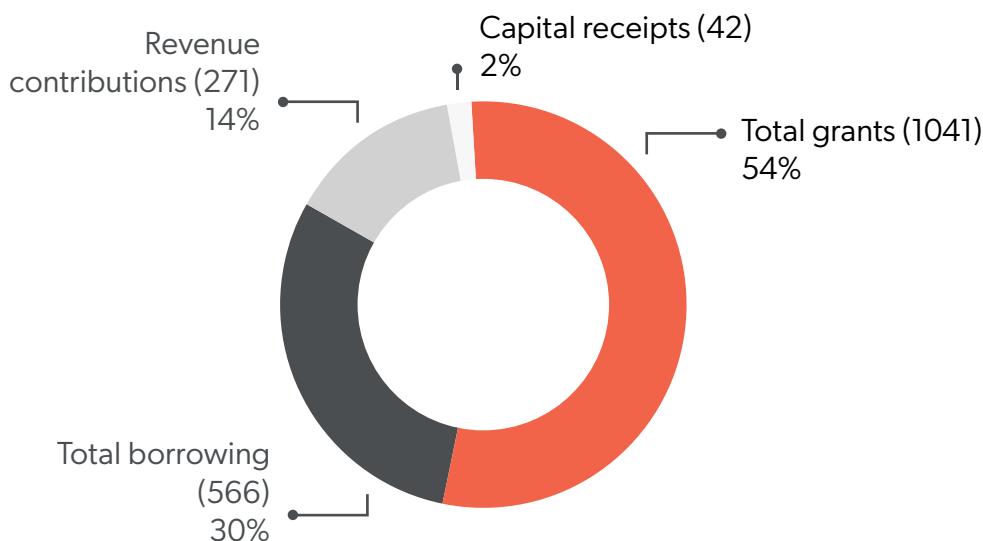
73% – the real terms increase in borrowing by councils for capital spending since reforms in 2004-05.

Our findings

Grant funding processes

13 Grants are the main funding type for capital spending by councils. Between 2000-01 and 2023-24, the share of council capital spending funded by grants grew from 45% to 54%. As **Exhibit 1** shows, capital grants were the largest of the four types of capital funding.⁴ This makes the processes for applying for, awarding, and monitoring grants important to securing VFM from capital spending.

Exhibit 1: total capital spending by Welsh councils by funding type, 2023-24 (in million pounds at June 2025 prices)



Source: Audit Wales analysis of [Welsh Government data](#)

Notes: Audit Wales has adjusted spending data to account for the impact of inflation. Figures are given in June 2025 prices using data provided by His Majesty's Treasury.

Total grants include grants from the UK and Welsh Governments, Welsh Government sponsored bodies, European grants, grants from the National Lottery, and grants from developers. The split between these sources can be viewed at the source. Government grants represented 91% of the total grants in 2023-24.

4 We explain the different funding sources in more context in **Appendix 2**.

The timing of grant funding can make it difficult for councils to plan to secure VFM over the long term

- 14 The time for councils to plan how to use capital grants has reduced since the pandemic. Councils are told the value of their unrestricted capital grants each year as part of the local government settlement. This is a relatively small proportion of total capital grants. The total value of the 2023-24 unrestricted capital grant was £95 million in June 2025 prices – 9% of total grant funding. The settlement also includes revenue funding.
- 15 Before the pandemic, the Welsh Government typically published the provisional settlement in October and finalised it in December. Since 2019, these timescales have moved to December and February or March, respectively.⁵ This reduces the time for councils to plan their spending, as they must approve a balanced revenue budget by March each year, to set Council Tax levels for the new financial year. It can also reduce the amount of time that councillors have to scrutinise proposed capital spending plans.
- 16 The timing and complexity of restricted grant funding for capital projects can also make it difficult for councils to secure VFM. The Welsh Government often provides extra grants or increases in the amount of grants near to the end of the financial year. Often, councils also then need to spend the grants in that financial year. This is often due to funds becoming available because of underspends in other areas within the Welsh Government.
- 17 We heard similar concerns from councils that the UK Government also sometimes provides funding at relatively short notice. This can mean significant and unplanned increases in funding for councils, which can lead to a short-term or opportunistic approach. This makes it difficult for councils to plan to deliver long-term benefits and plan to integrate their spending across departments and with other public bodies.
- 18 This means that councils are less likely to use this funding in a way that maximises VFM over the longer term, and is potentially not the best use of public money. We set out what we mean by VFM in capital planning in **Exhibit 2** below.

5 We set out further details on the settlement process in our [national financial sustainability report](#), published in December 2024.

Exhibit 2: VFM in capital planning

What do we mean by VFM in capital planning?

Value for money (VFM) is about whether money is being used to deliver intended outcomes at the best price. It is commonly associated with the 'three Es' – economy, efficiency and effectiveness. We have summarised these as:

- economy – Getting the right deal by securing the necessary inputs, to help achieve intended outcomes, at the lowest possible cost
- efficiency – Doing things right by making the most of the inputs to generate outputs designed to achieve intended outcomes
- effectiveness – Getting the right results by achieving the intended outcomes for the short and longer term

VFM is therefore not just about costs, but about the quality and effectiveness of the service delivered for the money spent. For capital planning, this means councils ensuring they have the right assets, in the right place, in the right condition, and for the right cost.

Source: Audit Wales

- 19 A key impact of restricted grant funding being made available at short notice is on projects already planned. New funding can disrupt current projects, as officers must balance managing the delivery of existing projects with applying for, and spending, new funding. As funding often becomes available mid-year, it can encourage a focus on short-term rather than longer-term planning.
- 20 Annual funding awards from the Welsh Government also do not help councils focus on longer-term planning. Councils only know the level of unrestricted capital funding they will have for the following year in each annual settlement. This means that they can only plan with certainty in the short term. Councils believe this makes medium to long-term planning difficult and encourages them to have a short-term focus. Officers told us they feel this limits the VFM that councils can get from capital planning. Welsh Government officials told us that it can, and does, award funding over multiple years. But they explained that this needs to be balanced between funding commitments, ministerial priorities, and reducing administrative burden.

- 21 However, some councils have made assumptions about the level of future funding to inform their capital plans. This can help councils to plan how to make the best use of capital spending over a longer period.
- 22 By awarding funding late in the financial year, the Welsh Government risks not increasing the overall amount of capital spending in the same year. Grant conditions typically require a council to spend funds before the end of the financial year. This means that there is significant pressure to plan and spend those funds or risk losing the funding. This can encourage councils to use grant funding on projects that they had been due to fund in another way. For example, through local borrowing or revenue contributions. Equally, councils may decide to borrow or use revenue budget contributions in a future year instead.
- 23 The Welsh Government has taken action to prevent some local funding from being replaced by restricted capital grants. But this has increased the work needed by councils to apply for it. Some schemes, such as the Local Government Borrowing Initiative (LGBI), require councils to show that they have not displaced local funding and how the funding will be used for additional projects. Whilst this helps to ensure that overall capital spending increases, some officers described the application process as being time consuming.
- 24 Some of the issues set out above suggest that closer working and understanding between local and national government would be beneficial to both. Our fieldwork suggests that there is potential to improve the understanding of each other's perspectives. For example, the deadlines for some grant applications are seen as unrealistic, particularly in some smaller councils.
- 25 There is also sometimes confusion over the differences in funding and accounting rules between local and national government. These differences are not widely understood outside respective finance teams. To help ensure that funding is used to get the best VFM, it is important that the perspectives of each sector are well understood. This includes the potential impact of funding processes on financial planning and service delivery.

Restricted grant funding for councils is not co-ordinated across the Welsh Government

- 26 Grants are a way in which the Welsh Government can help to implement its policy agenda and deliver its well-being objectives. The Welsh Government, therefore, often links its funding to its priorities. It is for the Welsh Government to set its own policy in determining how it allocates grant funding. The Senedd is then responsible for approving how funding is allocated and holding the Welsh Government to account.
- 27 The Welsh Government awards restricted grants from across different ministerial portfolios. It does not co-ordinate its development or awarding of grants to councils centrally. Each grant is awarded by the sponsoring part of the Welsh Government. This can mean different application, business case, and monitoring requirements. This is to enable schemes to be flexibly designed to meet the relevant policy aims.
- 28 This sometimes also means grants can be combined to deliver a project with multiple policy aims. Capital projects often have budgets that exceed the size of individual grants, and so councils need to combine grants to deliver them. However, this can make it difficult and complicated for councils to make use of grants. Particularly for projects that might require several grants to deliver, that may have different timescales and application processes.
- 29 The UK Government has set a business case approach that the Welsh Government must follow. This is known as the Green Book. The Green Book sets out how projects should be evaluated, setting out costs, benefits, and trade-offs for delivering objectives. It adopts the 'Five Case' model for business cases. Welsh Government officials explained that this is the model that all grants should follow in their applications, except in certain circumstances, such as flood repairs. Despite this, councils told us that processes vary for different grants, and sometimes the scale of requirements vary significantly and are not necessarily proportionate to the funding available.
- 30 We recognise the importance of ensuring that grant funding is spent in accordance with policy aims and that spending is monitored and properly accounted for. However, to ensure that use of capital grant funding secures VFM, it is important that these processes are proportionate. We heard concerns from some council officers that the complexity of the application process makes them question the value of applying for some grants.

- 31 We also heard concerns that the rationale for different restricted grant application rules are not always clear. For example, the use of competitive bidding for flooding prevention grants rather than a risk-based approach. The Welsh Government's current approach allows flexibility to meet policy objectives. But there remains a risk that application processes are not helping councils, and therefore the Welsh Government, to get the best VFM.
- 32 Councils also do not have a consistent business case approach. Some councils shared their approaches with us, which vary in depth and coverage. In general, council business cases do not clearly follow the 'Five Case' model. This means that projects are often likely to need multiple business cases for internal and external use. Needing to produce multiple business cases is unlikely to be an efficient approach and is likely to reduce the VFM gained from capital spending.
- 33 Although the Welsh Government has taken steps to standardise parts of its restricted grant processes, its business case requirements for grants vary. The Welsh Government has developed standardised documents and processes for some of the grants it offers. However, most of this work has focused on revenue grants. This means that there is potential for confusion if different parts of the Welsh Government use different terms to meet the requirements of the Green Book. Greater consistency in how the Welsh Government awards grants could reduce the risk of duplication and help councils to have a clear understanding of requirements to access grants. This has the potential to improve efficiency and therefore VFM.

Councils sometimes apply for restricted grant funding to deliver projects that do not reflect their local priorities

- 34 Most capital spending by councils is funded in part or completely by grants. This can mean that councils access grants, even where this may not help to deliver local priorities. Some officers described how they feel 'obliged' to bid for grants, so their council receives a share, even where it may not be a significant benefit to their area. We heard examples of investment in areas where officers perceived there was little local benefit.
- 35 How capital grant funding is distributed is largely a matter of policy to be decided by the Welsh Government. However, the current system can incentivise an opportunistic rather than a strategic approach to bidding for grants. This risks councils using capital funding in ways that are not tailored to their local areas and therefore less likely to meet locally identified needs.
- 36 We have included these findings to highlight their risks to councils and the Welsh Government in being able to secure VFM. We do not criticise either councils for accessing available funding to make improvements to their local area or the Welsh Government for using grants to help deliver its policy agenda. However, this does highlight the importance of making sure that the potential implications for VFM of grant funding processes are considered.

Councils' capital plans

37 Councils across Wales deliver hundreds of capital projects each year. In 2023-24, the total spending by councils was £1.92 billion (based on June 2025 prices). This shows the volume of projects that councils have successfully delivered. It also highlights the amount of public money being spent by councils and the need to get the best VFM from it. Capital plans and strategies are a way in which councils can set out how they plan to achieve VFM from their capital spending.

Councils' capital plans focus on ensuring they follow borrowing rules rather than setting a strategic vision for their capital spending

38 Capital projects can take several years, be complex, and of a significant size. This means that planning for spending at the right time, for the right reasons, and at the right cost is critical to delivering VFM. Currently, councils do not always show how they think about this in their capital plans.

39 Councils' capital plans do not set out a detailed understanding of their strategic position. Instead, plans mainly focus on enabling councils to borrow money to fund activity. Councils use their capital plans or strategies to show how they comply with the Prudential Code (the Code). The law requires councils to comply with the code to be able to borrow money.⁶ It requires, for example, councils to think in the long term when making decisions and be focused on achieving objectives the council has set itself.

40 Capital plans are usually short term in nature. Councils typically publish their capital plans annually as part of the budget setting process. They usually also publish their list of projects for the next year at the same time. This means that plans have a relatively short-term focus and are then revised each year. Planning for the longer term can both show how the Code has been applied, but can also help councils to ensure they are balancing short and longer-term factors to achieve VFM.

41 All councils have a capital strategy. However, whilst some include a strategic vision, the majority were focused on the minimum content required by the Code. This means that most councils may be missing an opportunity to set a clear strategic direction for their capital investments. Strategic direction can help the council to develop projects that contribute to shared objectives and aims.

6 We explain the requirements of the Prudential Code in **Appendix 2**.

Councils do not clearly show how their capital plans support the delivery of their well-being objectives

- 42 It is not clear how councils ensure their capital plans help them to deliver their well-being objectives. All councils must set well-being objectives by law. Well-being objectives provide strategic direction for local priorities, as well as showing how councils are contributing towards the national well-being goals. Councils do not set out how their capital plans will help them meet these objectives. Most plans mention well-being objectives and that the plans support the achievement of them, but lack detail to demonstrate how they will do this. This could increase the risk of councils approving projects that do not help them meet their objectives, or, at worst, impede their progress.
- 43 Some councils questioned whether capital plans needed to be linked in detail to well-being objectives. In their view, their corporate plan provided strategic direction and so it was not necessary to include this detail in capital plans. However, without showing how they intend capital spending will support their wider corporate objectives, it is difficult for them to know if they are achieving VFM.
- 44 Councils do not always clearly show how individual capital projects support the delivery of their well-being objectives. Some councils set out how capital projects support strategic objectives, but they generally do not explain in detail how they will do this. This makes it difficult for councils to know if and how individual capital projects are supporting them to deliver their well-being objectives and therefore secure VFM. This also reduces the opportunity for councillors to scrutinise the rationale for projects.
- 45 Conwy County Borough Council clearly shows how individual capital projects link to its strategic objectives. The Council publishes a business case for each proposed project in its annual capital plan (**Exhibit 3**). The business cases are also published and reported to councillors so they can scrutinise them. This helps councillors to scrutinise the intended impact of capital spending.

Exhibit 3: interesting practice example

Conwy County Borough Council capital business cases

For each proposed project, Conwy Council completes a business case proforma that includes:

- a description of the project and how it supports services;
- the five main intended outcomes of the proposal;
- how the proposal links to its corporate plan outcomes;
- other options that have been considered instead of the proposal;
- the impact of the proposal on corporate risks and climate change;
- how the proposal demonstrates the five ways of working set out in the Well-being of Future Generations (Wales) Act 2015;
- the delivery implications of the proposal; and
- key financial information like upfront capital costs and ongoing revenue costs.

Source: Conwy County Borough Council

Councils do not clearly explain their aims for capital planning

46 Councils' capital plans do not clearly set out the aims and objectives that councils are seeking to achieve from their capital spending. Although officers and councillors were able to more clearly describe what they saw as their council's ambition for capital planning during interviews. Councils' plans for capital planning vary significantly. Some councils focus largely on maintenance only, due to a lack of funds, whilst others described a focus largely on developing new assets only. A few others described their ambition to do both at a significant scale.

47 Setting clear aims and objectives also has a range of benefits. They include:

- aligning capital plans to other plans and strategies that councils and their partners have in place. This could include, for example, digital strategies or workforce planning.
- aligning capital plans to any financial targets for capital receipts generation or other financial indicators.
- setting a clear direction to officers and councillors about what the council is aiming to achieve. This helps to provide a framework for officers to develop proposals and for councillors to scrutinise proposals and take decisions.
- helping to be clear on why individual projects have been included in the capital plan and how these support the overall aims and objectives.

48 There can be a tension for councillors in making decisions on capital plans in balancing the needs of their local area and the council area. We recognise there will always be tensions and competing priorities for capital funding, particularly during a time of significant financial constraints. We also recognise that decisions on how to allocate budgets within councils are a matter for councillors. However, competing priorities reinforce the need for councils to set clear intended outcomes for their capital plans, to help ensure that spending is focused on securing the best VFM over the council area as a whole.

Councils do not clearly set out how they will achieve VFM in their plans

- 49 The Prudential Code requires councils to consider VFM when planning their borrowing. Whilst some plans reference the need to secure VFM, almost all plans do not set how councils intend to achieve it. This increases the risk of councils either not securing value for money, or knowing if they are securing VFM, as the plans are delivered.
- 50 The Vale of Glamorgan Council includes a section in its capital strategy that sets out how it will achieve VFM. It sets out the arrangements it will use to do this, such as its procurement strategy and project management methodology. Being clear on the arrangements needed may help to reduce the risk of the council not securing VFM.

The evidence base for capital plans

51 Well informed decisions on capital spending are key to helping councils to achieve VFM. This can include considering a range of factors, such as the condition of current assets, statutory responsibilities, new technology or demographic trends and public expectations. Balancing all of these factors is difficult, and many future trends are not easy to predict. However, taking account of these factors can help councils to plan for the longer term and ensure that capital spending is focused on need.

Councils do not generally have a comprehensive understanding of the condition of all of their assets

52 Understanding the condition of assets is a key source of evidence to inform capital plans. It should influence decisions on which assets to maintain, repair, replace and dispose of. Audit Wales and its predecessors have highlighted this in the past.⁷ In 1988, the Audit Commission recommended that councils measure the condition of their assets to plan for their maintenance. It repeated these findings in 2000.⁸ It also argued for the need for councils to know the VFM that council properties were delivering. Similarly, we have also recently reported that councils need to know the condition of their assets, to plan to get the most VFM from them over the long term.⁹

53 The level of concern about the condition of assets varies by council. We heard some concerns about the general ageing of key assets. This includes not just those owned by councils but also those that they rely on that are owned by third parties. Concerns focused on the risk that the scale of the issue has not been fully assessed, to enable assets to be maintained or replaced. The UK National Infrastructure Commission (UKNIC) notes that key assets are increasingly exposed to risks from age and climate change.¹⁰ It called for better up-keep and renewal of assets, in addition to longer-term decision-making.

7 The Audit Commission audited councils and some other public bodies in Wales before devolution.

8 Audit Commission, Hot Property, April 2000

9 Audit Wales, Springing Forward, September 2023

10 UKNIC, Second National Infrastructure Assessment, October 2023

- 54 Despite these concerns, councils have not completed asset condition surveys of most of their assets. Although many councils have said they will complete surveys, they either have not done so yet, or will do as part of a multi-year plan to do so. Councils instead generally rely on the views of their estates officers to know about the condition of their assets to inform maintenance plans. This poses risks, including the significant reliance placed on the knowledge and experience of key individuals. It also means information on asset condition may not be comprehensive or consistent. The lack of comprehensive information on asset conditions means that capital plans are generally not well informed.
- 55 Councils generally have a better understanding of the condition of their schools and roads than other assets. This is due to support from the Welsh Government. The Welsh Government funded surveys to give a consistent view of the condition of school buildings. This allows for comparisons of conditions and cost estimates. A similar approach has also been taken with some roads. Overall, this means that maintenance plans for roads and schools have been better informed than for other service areas.
- 56 Many councils plan to carry out asset condition surveys. Surveys are a common action in asset management and capital plans. Some councils have already started this process and are using it to guide future projects (**Exhibit 4**). These examples show that knowing the condition of assets can also help inform service change or transformation projects.

Exhibit 4: interesting practice examples

Powys County Council

The Council has started a rolling survey programme of its assets. The surveys will share findings to its transformation project. This means that capital information will be used with delivery and financial information factors to make decisions.

Rhondda Cynon Taf County Borough Council

The Council has surveyed its in-house care homes. It has used this to review their condition and their potential for change. This has informed its decisions about the future of its social care provision.

57 Knowing the conditions of assets also helps councils ensure that their financial accounts are accurate. Councils are required to ensure that the value of assets recorded in their accounts is materially accurate. This means knowing what the impact of any damage or change of use can have on their value. For example, where a school roof requires replacement, this may mean the value of the school building needs to be impaired. Maintaining a good understanding of asset condition helps councils ensure that the fair value of assets is recorded.

Capital plans do not clearly set out the impacts of national policy and how this has shaped them

58 National objectives and policies can have a range of influences on local capital plans. It is clear from our interviews, officers know the influence that national policies can have on capital plans. This includes:

- changes to the Welsh Housing Quality Standards for councils that have council houses;
- the requirement for children's social care providers to be not for profit that may require changes in in-house provision;
- the target for the public sector to be net zero in carbon emissions by 2030 that may require changes to fleet or buildings; or
- changes to recycling targets that may require changes to equipment and facilities.

59 Whilst clearly aware of these influences, few councils can show how they have considered them in their capital plans. This means it is not clear how councils have factored these issues into planning nor any tensions there may be with local priorities.

60 Some councils, however, did highlight some key influences on their strategy. For example, Pembrokeshire County Council included a strategic context section that included local corporate plan aims, climate change, and homelessness.

There is an opportunity for councils to work more closely with partners to plan their capital spending

- 61 Councils do not set out in their capital plans how they align with the objectives of other organisations, or with the seven national well-being goals. This risks councils duplicating or missing opportunities to secure multiple benefits and therefore not securing VFM.
- 62 Councils are required by law to take part in partnerships such as Public Services Boards (PSBs), Regional Planning Boards (RPBs), and Corporate Joint Committees (CJCs). Councils' partners sometimes cover geographical areas wider than their own, such as the emergency services or national park authorities.
- 63 We saw few examples of councils planning capital spending with partners outside of RPBs. In some areas, we heard that RPBs are seen to be driving collaborative investment in social care between councils and health boards. RPBs must send 10-year capital plans to the Welsh Government, which then provides funding directly to them. Officers were positive about the benefits of this approach in some areas, although this was at the initial stages of projects. In other areas, RPBs were not seen to have the same impact due to partners focusing on delivering their own plans.
- 64 Collaborating with partners to plan capital spending could provide opportunities to improve VFM, through, for example, sharing expertise, joint investments, sharing buildings, or buying equipment together.
- 65 During interviews, officers and councillors identified a number of barriers to collaboration with partners. These included:
 - partners having different aims and objectives;
 - challenges of splitting costs and the use of assets between partners;
 - deciding who owns an asset;
 - different rules and timings for funding between sectors;
 - the time it takes to participate in a complex range of partnerships that councils are part of; and
 - public bodies covering different geographical areas.

66 We recognise that there are often factors that make planning capital spending with partners difficult. However, by exploring and evaluating opportunities to collaborate, councils may identify opportunities to improve VFM. Partnership working is also a theme we have highlighted in other work recently, as an area that public bodies could strengthen to improve services and VFM.¹¹

67 All the councils we met with could give examples of individual capital projects they are delivering in partnership. This included the joint purchasing of school ICT equipment and electric cars to achieve economies of scale. Some councils also described how they are co-locating services into one building with partners. This could help councils in delivering multiple objectives, such as investing in town centres, releasing surplus assets for sale, and/or making services more accessible for residents.

Capital plans are not clear on how they will help to reduce councils' capital risks

68 Most councils include some capital risks on their corporate risk registers, but it is often not clear how these inform capital plans. Of the 20 registers we looked at, almost all included a risk that was related to capital spending.¹² We found 81 capital-related risks in total. The type and nature of the risks varied by council. Some risks were more specific, such as the impact of climate change on assets or building capacity. Half of the registers included a risk that focused on the delivery of capital projects or the risk of not achieving intended outcomes.

69 We found few examples of councils clearly showing how their assessment of risk informed spending on buildings or equipment. For example, we found that 9% of capital risks related to condition. However, councils do not clearly show how they include asset condition in their capital plans (**paragraph 52**). This means the link between risk and spending is not always clear.

70 This was also the case for financial risks. 15% of the capital risks focused on the risk of councils not being able to fund their capital plans. This links to the views of almost all officers and councillors that money was the main limit on capital plans. This means that councils do not yet fully understand the scale of their funding challenges or the implications of not addressing it.

11 For example, it is a theme in our recent summary of findings from our work on the Well-being of Future Generations (Wales) Act – Audit Wales, No time to lose, in April 2025.

12 Two registers were not publicly available and so were not part of our analysis.

Councils do not clearly assess the equality and socio-economic impact of their capital plans

71 Only two councils have assessed the equality and socio-economic impacts of their capital plan. Some councils assess the impact of individual projects, although this varies according to the size and significance of those projects. Some councils also felt that this was not necessary if the projects were supporting delivery of their well-being objectives. As a result, it is not always clear how councils assure themselves that their plans are helping them to meet their statutory duties and meeting the needs of local communities.

Lack of officer capacity is limiting some councils' ability to develop their capital plans

72 Whilst this varies across councils, we heard some common concerns regarding a lack of officer capacity, these included:

- a lack of time and capacity for officers to plan due to day-to-day demands of service delivery;
- a lack of specialist skills within councils;
- challenges in recruiting and retaining officers;
- a reduction in some design or technical officers in councils; and
- contractors not being available to complete work when councils need it done.

73 Most councils we spoke to acknowledged they have skill gaps in some specialist areas. Some councils have used consultants to address this, but commissioning consultants can sometimes lead to increased costs. The time taken to commission consultants can also lead to delays in project delivery.

74 Delays and difficulties in the supply of contractors are also limiting how quickly councils can deliver their capital plans. All councils we spoke to raised this as a concern. This reflects the findings of the UKNIC. It reported that the lack of long-term investment by the public sector in construction has contributed to a lack of capacity. The UKNIC also found that how the construction sector is split up, such as through sub-contracting work, has made the capacity issue worse and led to higher costs. It is therefore important that councils consider how to overcome these challenges when developing their capital plans.

- 75 Councils' capital plans have not clearly set out in their capital plans how they will respond to all these potential limits on capacity. Many capital plans include a skills and people section. However, these sections largely focus on the financial skills needed to borrow money. They generally do not focus on the capacity of officers, and the technical skills needed to deliver plans and capital projects. By considering potential capacity restraints and how they might be overcome when developing plans, councils could reduce the risk of plans not being delivered.
- 76 One option to improve capacity could be to share specialist expertise across councils. We found little evidence of councils considering this as part of their approach to capital planning. This suggests there may be an opportunity for councils to explore this further to get better VFM and address their lack of specialist capacity.

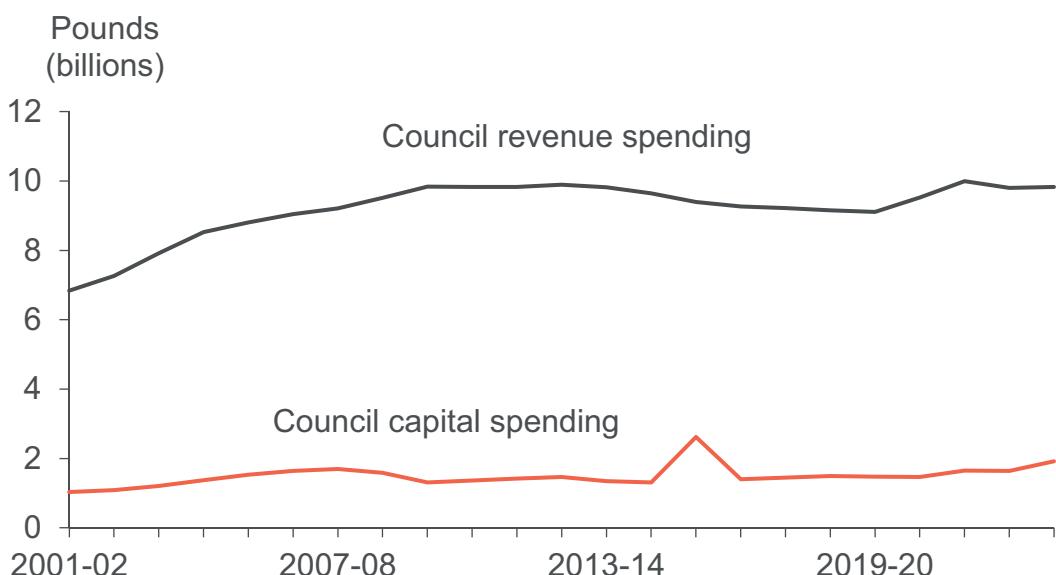
Funding capital spending

The level of capital spending by councils has remained broadly the same in recent decades, despite revenue spending increasing

77 The condition of almost all assets deteriorates over time. All councils inherited a mix of assets built or bought by their predecessors before 1996.¹³ Councils have also faced increased levels of service demand in some key services, including, for example, social care and housing. The need to replace existing assets and increased demand for services can lead to increased demand for capital spending.

78 However, capital spending levels since 2001-02 have been largely static, especially when compared to revenue spending by councils (**Exhibit 5**).

Exhibit 5: net revenue and capital outturn spending by councils, 2001-02 to 2023-24 (in billion pounds at June 2025 prices)



Source: Audit Wales analysis of Welsh Government data ([revenue](#) and [capital](#))

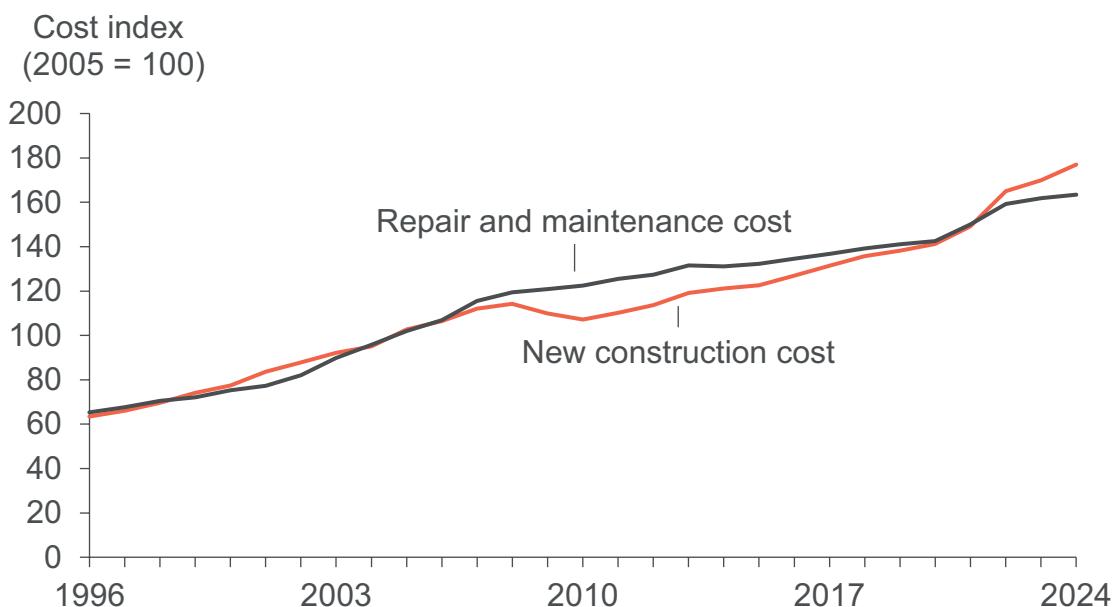
Notes: The 2015-16 capital data is inflated due to the process where 11 councils that owned council houses paid the UK Government to leave the housing subsidy system. The UK Government had used the subsidy system to ensure that rents covered costs with no deficit or surplus made. The 11 councils borrowed money to pay a lump sum to cover the loss of future surpluses to the UK Government. At June 2025 prices, this has a real terms value of £1.2 billion.

Audit Wales has adjusted spending data to account for the impact of inflation. Figures are given in June 2025 prices using data [provided by His Majesty's Treasury](#).

13 The current unitary councils were created in 1996 and replaced the former county and district councils.

79 By avoiding or delaying capital spending, councils can face significantly higher (or potentially lower) costs in the future. As **Exhibit 6** shows, the costs of both new construction and maintenance have increased significantly over time – especially since the COVID-19 pandemic. This means delaying a project in the short term could reduce VFM in the long term. We recognise that predicting future trends is difficult, and the pandemic and its impact were unprecedented in modern times. However, this shows the importance of taking a long-term view to achieving VFM through capital planning.

Exhibit 6: indexed costs of new construction and maintenance, quarter four 1996 to quarter four 2024



Source: [UK Government](#) (up to 2014) and the [Office for National Statistics](#) (2014 onwards)

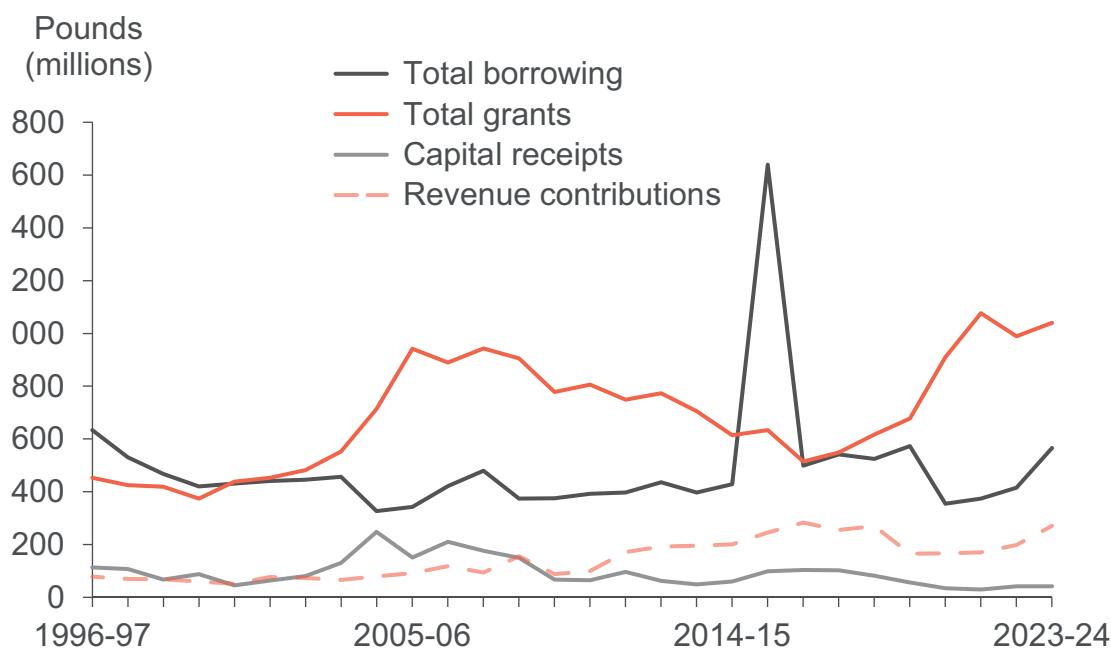
Notes: The costs are indexed with quarter one of 2005 being equivalent to 100 by the source of the data. This chart includes only quarter four data to illustrate the trend.

80 Investing in capital projects, whilst often meaning initial up-front costs, can help to reduce costs over the longer term. For example, a new building is likely to require less maintenance, be cheaper to heat and have a smaller carbon footprint. Councils can borrow money to increase their funding, but in doing so, they have to balance the cost of a project (both now and in the long term) against the need for the spending and the costs over time of not progressing with a project. Getting this difficult balance right is key to delivering VFM.

81 Councils have not significantly increased their level of borrowing over time to support their capital programmes. **Exhibit 7** shows that the real terms value of borrowing has been broadly consistent and has not overtaken the same level borrowed in 1996-97. This means in practice that the amount councils spend on capital projects is shaped by the amount of grants available rather than their borrowing.

82 This suggests that, overall, councils have generally decided not to increase borrowing to fund capital projects. This is understandable, particularly in an era where there has been continued pressure on public finances. However, this may also mean that, over the longer term, maintenance and other costs may increase. This, in turn, could place further pressure on already stretched revenue budgets.

Exhibit 7: real terms changes in the sources of capital funding by councils, 1996-97 to 2023-24 (in million pounds at June 2025 prices)



Source: Audit Wales analysis of Welsh Government data

Notes: The 2015-16 data is inflated due to the process where 11 councils that owned council houses paid the UK Government to leave the housing subsidy system. The UK Government had used the subsidy system to ensure that rents covered costs with no deficit or surplus made. The 11 councils borrowed money to pay a lump sum to cover the loss of future surpluses to the UK Government. At June 2025 prices, this has a real terms value of £1.2 billion.

Audit Wales has adjusted spending data to account for the impact of inflation. Figures are given in June 2025 prices using data provided by His Majesty's Treasury.

Less money from the sale of assets has led to councils spending more of their revenue budgets on capital projects

83 Councils sometimes use the proceeds of selling assets to fund their capital spending. These are known as capital receipts. The value of capital receipts used to fund capital spending by councils has fallen sharply over time (**Exhibit 7**). This may be due to them having fewer surplus assets, or, for example, falls in the value of property. This has led to councils increasing contributions from their revenue budgets to fund projects. Councils already face significant financial pressures, which means the use of revenue funding in place of capital receipts may increase risks for the financial sustainability of councils.

84 However, councils face a difficult balancing act. As noted above, by not investing in capital plans, councils can also risk higher revenue costs, like running or maintaining inefficient buildings. Older assets may also not help councils deliver wider objectives such as reducing carbon emissions or digitising services. To reduce these risks, councils will need to balance the long and short-term impacts of revenue contributions to get the best VFM over the longer term.

Performance reporting and scrutiny

- 85 We recognise that setting out and measuring the intended outcomes of capital projects can be difficult. For some projects, the outcomes will not be known for many years.
- 86 However, public reporting on project delivery and progress towards outcomes can help provide assurance that projects are progressing as planned and are meeting their objectives. This can also help councillors, officers, and other stakeholders assess and monitor if councils are delivering VFM.

Most councils regularly report on the progress of capital projects but these reports focus mainly on budget monitoring

- 87 Most council cabinets receive progress reports on their capital projects. These progress reports typically focus on what they have spent. Reports typically set out the spending on a project and how this varies to the forecasted budget. Reports generally contain limited information, for example, on the reasons for delays in projects, and the impact of this on the council's well-being objectives. This limits the potential for cabinet members and other stakeholders to understand how well the council is progressing its capital plans.
- 88 We also found that scrutiny committees do not regularly request or receive reports on capital plans and projects. Whilst it is for individual scrutiny committees to set their own work programmes, capital projects are a significant area of council spending and activity. We heard from members and officers that, typically, councils focus more on their revenue budget plans than capital. This was felt to be partly because revenue spending often provides a more immediate outcome. However, greater focus on capital plans by scrutiny committees could help to ensure that risks to the delivery of capital plans and projects are identified and addressed.
- 89 Councils also do not routinely evaluate their projects to know if they have achieved the benefits they planned for, after they complete them. This means that councils do not always know whether their capital projects and plans have delivered VFM.

Councillors often do not receive training to help them oversee capital planning

- 90 Not all councils offer training to councillors on capital planning. Some councillors believed that they had received training that would help them engage with reports on capital planning and spending, but most did not. There are a range of possible topics that councillors might find beneficial, including, for example, the financial rules that govern capital planning. Ensuring that councillors are equipped with the knowledge and skills to be able to take decisions, scrutinise proposals and monitor delivery is important to ensure proper oversight of capital planning.
- 91 Council officers explained that treasury management training is the main way to improve councillors' knowledge of capital planning. Treasury management is how an organisation manages their money and investments to support their aims and maximise their value. This is important, as councils can borrow money to fund capital projects, but also need to be prudent when deciding how much to borrow. However, there are other key aspects of capital projects that also need to be considered against the costs of borrowing, including, for example, the benefits of a project for service users.
- 92 We also heard that, when training sessions were offered, engagement and attendance of councillors was often poor. This means that councillors may be making decisions on, or scrutinising capital plans, without the appropriate knowledge.



Recommendations

Recommendations for councils

R1 Councils should review their capital planning arrangements taking account of the issues we have identified in our report, to identify and implement opportunities for improvement. We have developed a checklist (**Appendix 4**) that councils may find helpful to support this.

As part of this, we recommend that councils should focus in particular on:

- 1.1** ensuring that capital plans and financial statements are informed by a recent, accurate and comprehensive knowledge of the condition of their assets (**paragraphs 52 to 57**);
- 1.2** routinely evaluating their capital projects to assess if they have achieved their intended outcomes (**paragraphs 87 to 89**);
- 1.3** ensuring that appropriate training is provided to councillors to enable them to take well-informed decisions on, and provide effective oversight and scrutiny of, capital plans and projects (**paragraphs 89 to 91**).

Recommendations for the Welsh Government

R2 The Welsh Government should review its unrestricted capital grants processes to ensure that they are proportionate and where practical, consistent, to improve the efficiency of grant funding processes. This should include:

- 2.1** improving co-ordination between different parts of the Welsh Government on grant timing, application requirements, and ongoing monitoring arrangements (**paragraphs 26 to 33**);
- 2.2** developing a more consistent business case approach for grants, proportionate to the scale of grants or the level of risk associated with them (**paragraphs 28 to 29, and 32**).

R3 The Welsh Government should ensure that, where practical, new capital grant funding schemes help councils to plan over the longer term. To do this it should review if:

- 3.1** longer timescales for grants can be introduced, including indicative funding over the medium term;
- 3.2** greater notice can be given to councils that grant funding will be available;
- 3.3** where is not possible, the Welsh Government should communicate with council officers to support their understanding of the reasons for this (**paragraphs 14 to 25**).



Appendices

- 1 About our work**
- 2 Capital spending explained**
- 3 Key terms in this report**
- 4 Capital planning checklist**

1 About our work

Scope of the audit

We looked at how all 22 principal councils in Wales plan their capital spending. To do this, we focused on their key planning documents, like their capital strategy and annual capital budget. We looked at the information within them and their supporting papers. We limited ourselves to the evidence shared with us by each council and those publicly available on their websites.

We did not look at the projects that are included within council plans. We did not form a view on the merits of their inclusion nor on the aims and ambitions that each council has set.

We also did not look at the capital planning carried out by other public bodies. Our work focused only on the principal councils and not other local government bodies, such as Fire and Rescue or National Park Authorities.

Audit questions and criteria

Audit questions

Our questions aimed to help us form a national view of capital planning by councils. This was to enable us to make recommendations to help councils improve the VFM they achieve. To do this, we focused on:

- whether councils are taking a strategic approach to their capital planning;
- if councils understand their current assets and what is needed for the future and if they use this to inform their capital plans;
- if councils use their understanding of their financial position to help them plan; and
- whether councillors provide and are supported to provide effective oversight and scrutiny of capital planning.

In our questions, we also looked to consider whether councils had thought about and applied the sustainable development principle in their capital planning.

Criteria

We shaped our criteria by looking at guidance and good practice guides for capital planning. This included the Prudential Code and capital strategy guidance that was issued by CIPFA in 2021. We also included the Welsh Government's guidance on Minimum Revenue Provisions from 2018.

Our criteria also drew on our knowledge of the sector and the sustainable development principle. We develop our knowledge of councils by completing both performance and financial audits.

Methods

- document reviews – we reviewed the capital plans and supporting documents of all principal councils. We also reviewed national reports and guidance issued by national bodies.
- local interviews – we met senior staff and councillors to discuss capital planning at six councils. In choosing these six councils, we looked at things like location, size, how rural they are, and the scale of their capital plans. The six councils were:
 - Isle of Anglesey County Council
 - Neath Port Talbot Council
 - Powys County Council
 - Rhondda Cynon Taf County Borough Council
 - Swansea Council
 - Torfaen County Borough Council
- national interviews – we interviewed people from a number of national organisations. This included:
 - officials from the Welsh Government;
 - officers of the Welsh Local Government Association (WLGA); and
 - members of the Society of Welsh Treasurers.
- data analysis – we analysed data published by the Welsh Government and published by StatsWales. This included revenue and capital spending data, which the Welsh Government collect from councils each year, as well as financial data provided by councils. We added to this with analysis of other financial information, such as the statement of accounts published by councils.
- cumulative audit knowledge and experience – we used our knowledge and experience of the sector acquired through our other work to help inform this work.

2 Capital spending explained

What is capital spending?

Capital spending is money spent by an organisation to acquire, create, upgrade, or maintain assets that they own or have the right to control. For councils, the Local Government Act 2003 defines it as spending 'capitalised in accordance with proper practices'. This means spending recognised as being capital spending under the Code of Practice on Local Authority Accounting, issued by CIPFA. Councils and others commonly refer to this as the CIPFA Code. The Code regulates how local government bodies should account for all spending, income, assets, and liabilities.

Councils may use capital funding for revenue purposes only when they are allowed to by the Welsh Government. This is known as a capitalisation directive and is issued by the Welsh Government under the 2003 Act. This allows councils not to account for their spending in a specific scenario in line with the CIPFA Code.

Is maintenance capital spending?

It can be difficult to decide whether maintenance is capital or revenue spending. The Code is clear that the day-to-day costs of servicing an asset are not capital spending. This could be the cost of labour to run a building or small replacement parts. This is because these costs do not add to the benefit or service an asset could provide in the future.

If maintenance spending enhances an asset, then it can be classed as capital spending. This could be through extending the useful life of an asset. It could also be through increasing the level of performance an asset could provide. This needs to be assessed by the council on a case-by-case basis. CIPFA has provided illustrative examples to help councils in their decisions (**Exhibit 8**).

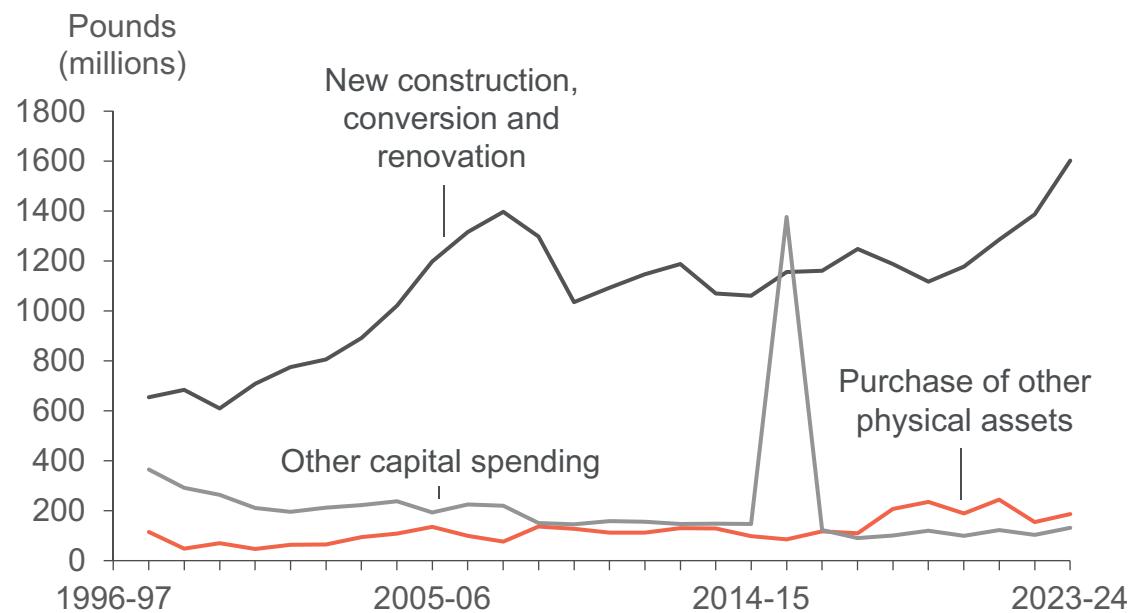
Exhibit 8: examples of maintenance spending that could be revenue or capital

Example	Capital or revenue?	Explanation
Painting	Revenue	It is expected that a building would have effective paint coverage over its useful life. Painting would not increase this life or provide more performance.
Replacing windows (like for like)	Revenue	If the same type of windows are replaced, eg double glazed by double glazed, then it has not enhanced the asset.
Replacing windows (not like for like)	Capital	Upgrading windows, such as from single to double glazing, would enhance the asset.
Building refurbishment	Capital	If refurbishing a building results in its useful life being extended or its performance potential being increased, this would enhance the asset.

Source: CIPFA, Practitioners' Guide to Capital Finance, March 2019

Councils spend most of their capital funding on building or renovating new assets. Since 1997-98, the real terms amount spent on new construction, conversion or renovation of buildings has grown significantly faster than other forms of capital spending (**Exhibit 9**). 83% of capital spending in 2023-24 was spent on new construction, conversion or renovation, compared to 58% in 1997-98.

Exhibit 9: capital spending by spending type in real terms, 1997-98 to 2023-24



Source: Audit Wales analysis of [Welsh Government data](#)

Notes: The 2015-16 data is inflated due to the process where 11 councils that owned council houses paid the UK Government to leave the housing subsidy system. The UK Government had used the subsidy system to ensure that rents covered costs with no deficit or surplus made. The 11 councils borrowed money to pay a lump sum to cover the loss of future surpluses to the UK Government. At June 2025 prices, this has a real terms value of £1.2 billion.

Audit Wales has adjusted spending data to account for the impact of inflation. Figures are given in June 2025 prices using data [provided by His Majesty's Treasury](#).

Other capital spending includes the awarding of capital grants, credit arrangements, and the purchase of intangible assets.

What are the sources of capital spending?

Capital spending, like revenue spending, can have multiple sources of funding. The sources could wholly fund or be combined to fund a project. The primary sources of funding are:

- grants and third-party contributions – these are funds provided by another body to the council to fund a capital project. There are two main types – unrestricted and restricted. Unrestricted grants can be used for any capital project. This would include funding provided by the Welsh Government each year. Restricted grants must be used for a specific purpose that the funder sets. For example, lottery funding, or sustainable communities for learning grants.
- revenue contributions – these are funds from the revenue budget for capital spending. This may be to fund a specific project in-year, or the use of a reserve earmarked for a longer-term purpose, such as infrastructure investment.
- capital receipts – this is funding from the proceeds of the disposal of assets. Receipts can only be used for capital spending, except where the Welsh Government allows them to be used in revenue spending through a capitalisation directive.¹⁴
- capital reserves – this is funding from the use of a reserve allowed only for capital spending. These are generally built up from revenue contributions over time. For example, where a council contributes funding over time for the replacement of a vehicle that a council expects to be usable for a specific number of years.
- borrowing – funding from the council taking out debt over a set time period. This can be from market sources, like a bank, but is typically from HM Treasury through the Public Works Loan Board (PWLB).

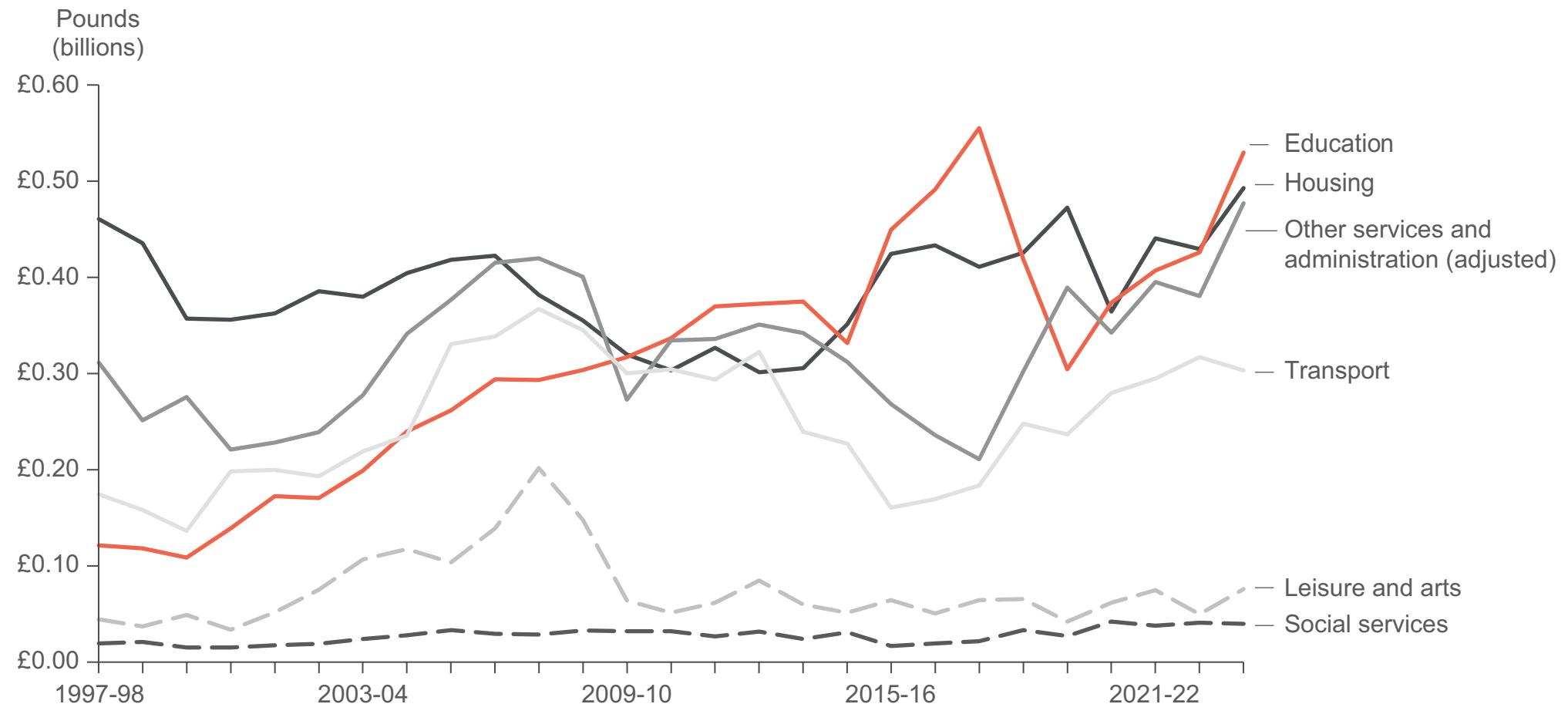
The real terms changes in the value of funding sources are set out in **Exhibit 7**.

14 The Welsh Government has issued guidance under the section 15(1)(a) of the Local Government Act 2003 for the flexible use of capital receipts. It allows receipts to be spent 'on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years'.

How does capital spending vary by service?

Some services offered by councils spend significantly more capital funding than others. This relates to the nature of the service that they offer. Since 1997-98, housing and education have been the two largest spending service areas for capital spending. This relates to the investment in homes and schools that are fundamentally linked to the services they provide. They have different trends over time, however. As **Exhibit 10** shows, education spending has significantly increased in real terms since 1997-98. This is mainly due to the two school investment programmes from the Welsh Government – 21st Century Schools and Sustainable Communities for Learning. Over the same period, spending on housing fell in real terms until 2013-14, before increasing to similar levels as 1997-98. Other services, such as social services, have been more consistent in their spending.

Exhibit 10: capital spending in real terms by service area, 1997-98 to 2023-24



Source: Audit Wales analysis of [Welsh Government data](#)

Notes: The 2015-16 data for other services has been adjusted to remove the impact of the housing subsidy buyout affecting some councils. This was a process where 11 councils that owned council houses paid the UK Government to leave the housing subsidy system. The UK Government had used the subsidy system to ensure that rents covered costs with no deficit or surplus made. The 11 councils borrowed money to pay a lump sum to cover the loss of future surpluses to the UK Government. At June 2025 prices, this had a real terms value of £1.2 billion. It has been removed from this chart to enable the general trend of services to be more clearly seen.

Audit Wales has adjusted spending data to account for the impact of inflation. Figures are given in June 2025 prices using data [provided by His Majesty's Treasury](#).

Other services and administration include service areas like environmental services, planning and development, and protective services. They also include general administration capital costs.

What are the rules for borrowing by councils?

The Local Government Act 2003 sets the legal rules that restrict and regulate how councils can borrow money. Councils may only borrow for capital spending and where they do not breach their prudential limits. They must set their limits and then keep them under review. To do this, CIPFA produces the Prudential Code that helps councils to set their limits and follow the law. These rules came into place in 2004-05 and replaced government set limits on borrowing.

The Prudential Code sets out how it should be used to support councils in their capital planning. It states that it should also support asset management planning and options appraisals. It includes the key matters a council should have regard for when setting or revising its borrowing indicators. These are:

- service objectives;
- asset management;
- VFM;
- prudence and sustainability;
- affordability; and
- practicality and achievability.

The Prudential Code also sets clear requirements on councils to ensure that their borrowing plans are prudent and consider the impact of repayment. This must be done over a rolling three-year period but have a longer-time period in mind.

The borrowing indicators required by councils are:

- estimated capital spending for the current financial year;
- estimates of future capital spending over three years;
- actual capital spending for the financial year at the year-end;
- the authorised limit – the maximum amount of borrowing the council assesses it can afford to borrow;
- the operational boundary – the maximum level of borrowing estimated that the council will need over three years;
- actual external debt;
- gross debt and the capital financing requirement – comparing borrowing taken against need to ensure debt does not exceed need;
- estimated financing costs to the revenue budget;
- actual financing costs to the revenue budget at the year-end;
- estimated net income from commercial and service investments; and
- actual estimates of net income from commercial and service investments.

Councils account for the impacts of borrowing in their accounts through their Minimum Revenue Provision (MRP). The MRP is an accounting transaction that councils make to charge their revenue budget for the cost of borrowing money. The Welsh Government sets the methods that councils can use to calculate their MRP in guidance issued under the 2003 Act. The main aim of MRP is to spread the accounting cost of the borrowing across the useful life of the asset it relates to.

Borrowing also impacts on how councils manage their cash and investments – known as treasury management. Councils often combine their capital and treasury management strategies due to the close relationship between borrowing, investing, and using cash. This adds complexity to borrowing, as councils need to time their borrowing correctly, to ensure they have enough cash available but minimise costs and maximise their returns.

3 Key terms in this report

Term	Description
Capital spending	The spending by councils on purchasing, building, or developing assets to deliver services. It does not include the ongoing costs of running the assets.
Capital accounting	The way that councils record how they have spent their funds and ensure they have the fair value of the assets that they control.
Collaboration	Acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives.
Five ways of working	The five things the Welsh Government set out that public bodies need to think about to show that they have applied the sustainable development principle within the Well-being of Future Generations (Wales) Act 2015.
Integration	Considering how the public body's well-being objectives may impact upon each of the well-being goals, on their other objectives, or on the objectives of other public bodies.
Local Government Borrowing Initiative (LGBI)	A Welsh Government scheme to fund the ongoing costs of councils borrowing for a capital project. In 2025, LGBI was limited to highways projects.
Restricted grants	These are grants that must be used for the purpose set out in an offer letter by the Welsh Government. Councils typically must meet conditions to receive this funding. They are also referred to as hypothecated grants.
Sustainable development principle	The sustainable development principle is defined as acting in a manner 'which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'.
Treasury management	The way that an organisation manages its cash and investments to respond to risks and fund their own commitments and plans.
Unrestricted grants	These are grants that councils have greater flexibility to use how they want to, whilst still being restricted to either revenue or capital spending. They are also referred to as unhypothecated grants.

4 Capital planning checklist

We have produced this checklist as a tool that councils may find helpful to assess their capital planning arrangements and identify any areas for improvement. This is informed by our findings, practice guidance, and our sector knowledge.

Exhibit 10: capital planning self-assessment checklist

Theme	Paragraph reference	Questions to consider	Council self-assessment
Strategic context	58 to 60	<p>Does the capital plan set out the strategic context for capital planning?</p> <p>For example:</p> <ul style="list-style-type: none">known challenges facing the council;gaps in the council's knowledge and the actions needed to close them; andlocal, regional, and national policies that impact on capital plans.	
Aims and Objectives	38 to 45	<p>Does the capital plan cover both the short and longer term?</p> <p>Does the capital plan include clear aims and objectives. For example:</p> <ul style="list-style-type: none">a long-term ambition for the purpose of capital investment in the council area;a set of clear objectives that support the achievement of the council's ambition; anddetails of how it will support the council's wider objectives.	

Theme	Paragraph reference	Questions to consider	Council self-assessment
Focusing on outcomes	46 to 48	<p>Has the council set out:</p> <ul style="list-style-type: none">what success looks like for the plan overall;what success looks like for individual projects; andhow it will measure and monitor this.	
Knowing the condition of assets	52 to 57	<p>Is the council's capital plan informed by a recent, accurate and comprehensive knowledge of the condition of assets?</p> <p>Does the council's capital plan include a maintenance plan based on realistic costs?</p> <p>Has the council assessed which assets it needs to successfully deliver its well-being objectives, and how much they will cost?</p> <p>Has the council considered a range of options in response to condition surveys – for example co-location or service re-design.</p>	
Working with others	61 to 67, and 76	<p>Has the council worked with partners to:</p> <ul style="list-style-type: none">identify opportunities to jointly plan and deliver capital projects;ensure that capital plans are aligned, including identifying mutual priorities that capital plans can help deliver; andexplore the pooling of knowledge, skills and resources to improve capital planning.	

Theme	Paragraph reference	Questions to consider	Council self-assessment
Planning for risk and assessing impact	68 to 71	<p>Does the Council:</p> <ul style="list-style-type: none">complete impact assessments for all projects;assess the impact of capital plans overall;identify the intended socio-economic outcomes for residents in capital plans;ensure that capital risks are assessed and recorded; andset out how capital risks will be mitigated in capital plans.	
Understanding resource requirements	42, 54 to 56, 70, and 72 to 76	<p>Does the council:</p> <ul style="list-style-type: none">set out realistic costs for the new assets and maintenance it needs to deliver its objectives;set out the prudent and affordable level of funding available (both internal and external) over the medium term;calculate and communicate a capital funding gap based on identified needs and funding available;set out how the gap will be managed and mitigated against; andinclude consideration of non-financial resources in plans, such as capacity and contractor supply.	

Theme	Paragraph reference	Questions to consider	Council self-assessment
Monitoring progress and impact	87 to 89	<p>Does the council:</p> <ul style="list-style-type: none">• regularly report publicly on progress in delivering its capital plan;• regularly report on the impacts and outcomes achieved from capital projects; and• include key financial information, such as comparing actual project costs to planned costs.	
Supporting oversight and scrutiny	90 to 92	<p>Does the council ensure that councillors have access to training and development to enable them to:</p> <ul style="list-style-type: none">• take well informed decisions on capital plans and projects; and• effectively scrutinise the progress and VFM of capital plans and projects.	

Source: Audit Wales

About us

The Auditor General for Wales is independent of the Welsh Government and the Senedd. The Auditor General's role is to examine and report on the accounts of the Welsh Government, the NHS in Wales and other related public bodies, together with those of councils and other local government bodies. The Auditor General also reports on these organisations' use of resources and suggests ways they can improve.

The Auditor General carries out his work with the help of staff and other resources from the Wales Audit Office, which is a body set up to support, advise and monitor the Auditor General's work.

Audit Wales is the umbrella term used for both the Auditor General for Wales and the Wales Audit Office. These are separate legal entities with the distinct roles outlined above. Audit Wales itself is not a legal entity.



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Rydym yn croesawu gohebiaeth a
galwadau ffôn yn Gymraeg a Saesneg.