

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

24 JULY 2019

REPORT OF THE INTERIM HEAD OF FINANCE & SECTION 151 OFFICER

CAPITAL PROGRAMME UPDATE - QUARTER 1 2019-20

1. Purpose of Report

1.1 The purpose of this report is to:-

- comply with the requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance 2018
- provide an update of the Capital Programme from 1 April to 30 June 2019 (**Appendix A**)
- seek approval for a revised capital programme for 2019-20 to 2028-29 (**Appendix B**)
- note the projected Prudential and Other Indicators for 2019-20 (**Appendix C**)
- approve a revenue budget virement of £2,349,797 from school delegated budgets to council wide budgets, following the receipt of grant funding from Welsh Government to that same value, to contribute towards capital expenditure as outlined in paragraph 4.7.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1 This report assists in the achievement of the following corporate priorities:-

1. Supporting a successful economy – taking steps to make the county a good place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions of all people in the county.
2. Helping people to be more self-reliant – taking early steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services.
3. Smarter use of resources – ensuring that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.

2.2 Capital investment in the Council's assets is a key factor in meeting the Council's Priorities as set out in the Council's Corporate Plan.

3. Background

3.1 The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, contain detailed provisions for the capital finance and accounting controls, including the rules on the use of capital receipts and what is to be treated as capital expenditure. They modify accounting practice in various ways to prevent adverse impacts on authorities' revenue resources.

3.2 As well as the legislation, the Council manages its Treasury Management and Capital activities in accordance with the following associated guidance:-

- CIPFA's Treasury Management in the Public Services: Code of Practice
- CIPFA's The Prudential Code for Capital Finance in Local Authorities
- Welsh Government (WG) revised Guidance on Local Authority Investments

3.3 In December 2017, CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities. The revised Code placed a new requirement on local authorities to determine a Capital Strategy, to be approved by full Council, which demonstrates that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. Local Authorities are required to have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.4 The objectives of the Code are to ensure, within a clear framework, that the capital investment plans are affordable, prudent and sustainable. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out a number of Indicators that must be set and monitored each year.

3.5 In previous financial years, the monitoring of capital expenditure has been included within the Financial Performance Quarterly Monitoring Reports to Cabinet. The monitoring of the Prudential Indicators has been included within the Treasury Management Quarterly Monitoring Reports to Cabinet. With the development of the Capital Strategy 2019-20, it is sensible to link the monitoring of both the Capital Programme and the Capital Strategy and therefore the Prudential Indicators into one report. The intention of this is to strengthen the links between the two. For the period 1 April to 30 June 2019 this report covers the following areas:-

- Capital Programme 2019-20 Monitoring
- Capital Programme 2019-20 Onwards
- Prudential and Other Indicators Monitoring
- Capital Strategy Monitoring

3.6 On 20th February 2019, Council approved a capital programme covering the period 2019-20 to 2028-29 as part of the Medium Term Financial Strategy (MTFS). Since then, there have been schemes that have slipped from 2018-19 and additional schemes requiring approval as a result of additional sources of funding.

4. Current Situation

Capital Programme 2019-20 Monitoring

4.1 This section of the report provides Members with an update on the Council's capital programme for 2019-20 since the budget was originally approved by Council and incorporates budgets brought forward from 2018-19 and any new schemes and grant approvals. The revised programme for 2019-20 currently totals £54.471 million, of which £36.665 million is met from BCBC resources, including capital receipts and revenue contributions from earmarked reserves, with the remaining £17.806 million coming from external resources. Table 1 below shows the capital programme for each Directorate from the February 2019 approved Council position to quarter 1 :-

Table 1 – Capital Programme per Directorate 2019-20

Directorate	Approved Council 20 Feb 2019 £'000	Slippage Brought forward from 2018-19 £'000	Slippage to 2020-21 £'000	New Approvals £'000	Revised Budget 2019-20 £'000
Education & Family Support	1,192	2,526	0	1,738	5,456
Social Services and Well-being	600	659	0	0	1,259
Communities	31,095	4,606	-400	8,360	43,661
Chief Executive's	3,270	495	0	330	4,095
Total	36,157	8,286	-400	10,428	54,471

4.2 Table 2 below summarises the current funding assumptions for the capital programme for 2019-20. The capital resources are managed to ensure that maximum financial benefit for the Council is achieved. This may include the realignment of funding to maximise government grants.

Table 2 – Capital Programme 2019-20 Resources

CAPITAL RESOURCES	BCBC £'000	External £'000	Total £'000
Capital Receipts	17,025		17,025
Grants		15,969	15,969
Earmarked Reserves	7,883		7,883
Unsupported Borrowing	4,811		4,811
Supported Borrowing	3,938		3,938
Other Loans	917		917
Revenue Contributions	2,091		2,091
Other Contributions		1,837	1,837
TOTAL	36,665	17,806	54,471

4.3 **Appendix A** provides details of the individual schemes within the capital programme, showing the budget available in 2019-20 compared to the projected spend. Commentary is provided detailing any issues associated with these projects. £8.286 million of funding was slipped forward into 2019-20 for schemes not completed in 2018-19, as outlined in the report to Cabinet on Financial Performance 2018-19 in June 2019 and included:-

- £508,000 in respect of the Extra Care facility at Maesteg following delays due to drainage issues;
- £535,000 in respect of the Cardiff Capital Region City Deal as no additional capital projects were approved during the year (although there was further spend in respect of the Compound Semiconductor scheme);
- Porthcawl Resort Investment Focus (PRIF) where £661,000 of grant has been re-profiled into 2019-20;
- £1.015 million of funding for minor capital works which, due to capacity issues during the implementation of the Corporate Landlord model, have not been able to be completed;
- £790,000 in respect of retentions on 21st Century Band A Schemes that were finalised during 2018-19, including Garw Valley South and Brynmenyn Primary provision.

4.4 There is one scheme currently identified that will be slipped into 2020-21 and this is £400,000 for Heol Mostyn Junction - further details are provided in paragraph 4.7 below. There has also been a re-profiling of Maesteg Town Hall as below :-

Maesteg Town Hall

In January 2018, a report to Cabinet outlined the anticipated project cost would be circa £5-6 million inclusive of fees and professional services. Due to the age and listed status of the building, several surveys have been carried out over the last 18 months to de-risk the project as much as possible. This has resulted in the need for additional works (such as asbestos and structural) and subsequent recommendations, along with general design progression, such as an increased lift specification to accommodate the end use of the building, a partial fit out of the Café, Studio Bar, Served and Kitchen and increase in ventilation requirements. This has resulted in a total project cost now of circa £6.3 million. RIBA stage 4 detailed / technical design will be completing early September. At this stage BCBC will receive an updated cost plan with final tender returns for the project - until this information has been received the cost is subject to change.

The funding package has also been progressed during the time to ensure that no additional burden is placed on the Council's Capital Programme. Confirmation was received recently from the National Lottery Heritage Fund for a contribution of £774,900, of which £701,460 is allocated for the capital works. Decision on the ERDF-Building for the future £2,859,999 funding is due to be received imminently. Officers are working closely with Awen who have also confirmed some of their funding, both internally and in the form of grant, such as for Community Facilities. Applications for further grant funding from CADW have been submitted and discussions are progressing at speed with other potential funders such as Valleys Task Force and Museums, Archives and Libraries Division (MALD).

- 4.5 In addition, there have been a number of new externally funded schemes approved, which have been incorporated into the capital programme, including:

Welsh Medium Childcare Provision

A report was presented to Cabinet in November 2018 advising that a grant of £2.6 million had been made available to develop Welsh medium childcare provision. This funding was built into the capital programme as part of the MTFs. We have now received the breakdown of funding over each of the four schemes, and the profile of spend, so this has been allocated in the programme.

Schools Maintenance Grant and ICT Grant

Due to the late notification in 2018-19 from Welsh Government of additional funding of £1.817 million from Welsh Government for Schools Maintenance Grant, this has been carried forward into 2019-20 in an earmarked reserve. An update will be presented at the half year monitoring report of the allocation of this funding. New funding of £81,000 from the Welsh Local Government Association has been received for ICT equipment within schools.

Transport Grant and Highways Refurbishment Grant

Confirmation has now been received from Welsh Government of the schemes approved for Transport Grant. These include the Local Transport Fund of £1.140 million, the Active Transport Fund of £1.615 million and Safe Routes in

Communities £461,000. In addition to the Highways Refurbishment Grant of £803,000 received late in 2018-19 which has been carried forward into 2019-20, there has been an additional allocation to it of £796,672 for 2019-20. The allocation of these monies to priority schemes is taking place and a further update will be presented at the half year monitoring report.

Coychurch Crematorium

In March 2019, the Coychurch Crematorium Committee approved a programme of works totalling £1.008 million. The major elements of this include the Flower Court Extension and Site Lighting. Further details can be found with the Reports to that Committee.

- 4.6 At this point in the financial year, and following discussions with directorates, it is assumed that all other projects will be in line with the budget. However, this will depend upon scheme progress during the financial year and any inclement weather experienced, which may place additional pressure on project timescales.

Capital Programme 2019-20 Onwards

- 4.7 There are a number of new schemes, funded by the Council, to be included in the capital programme since the programme was approved in February:

Data Centre – Chief Executive’s Directorate

BCBC ICT Service Unit currently house the primary authority data centre at Sunnyside House. Sunnyside House is a leased building until June 2021, and under the Rationalising the Estate Programme Board it has been agreed that the lease will not be renewed. The data centre is the heart of the ICT service and all ICT services that are provided to staff. An options appraisal was carried out to determine the most appropriate location for a new data centre, and the chosen option was a refurbishment of the computer rooms in Raven’s Court. The total capital cost of new datacentre building refurbishment works is £330,000, which includes the cost of:

- a generator and resilient uninterruptible power supply (UPS) system,
- datacentre network equipment,
- fire suppression system, air conditioning, and
- expansion of the Storage Area Network

The costs will be met from an earmarked reserve which was previously established for the relocation of the data centre.

Heol Mostyn Junction, Pyle

In the MTFs 2018-19 to 2021-22 Council agreed a capital budget of £400,000 for road safety works. This funding is to be used for the junction improvements required for the waste management site in Pyle, to increase the capacity of the junction and improve pedestrian safety for vehicles turning into the estate. The total estimated cost of the works is £600,000 and the balance of £200,000 will be met from an earmarked reserve set aside at the end of 2018-19 to meet the

full costs of this scheme. The works are programmed to commence in April 2020 with completion by August 2020.

Evergreen Hall

An opportunity has emerged to 'buy out' the remaining leasehold period of 18 years for the Evergreen Hall, for a sum of £39,900 from the trustees representing the Evergreen Hall users. This is a valuation made by the District Valuer on behalf of the two parties, and is subject to formal agreement at their scheduled committee meeting on 16th July. From the Council's point of view this represents an opportunity to secure an area of the Civic Offices building for future use. It is proposed that an options appraisal is carried out by the Council to determine the preferred use of the space, after which a further capital bid for refurbishment costs will be necessary. Securing this part of the building for future use is consistent with the Council's strategy of rationalising its office estate and, wherever possible, centralising its office accommodation in the Civic Offices and Ravenscourt. This will be particularly pertinent when the lease on the Sunnyside House building ends in 2021. It will also ease any potential congestion and parking issues in and around the access road to the underground car park of the Civic Offices when the Registrars facility moves into the building later this calendar year. The cost will be met from an earmarked reserve that has been set aside. There is the potential that the Council's offer could be reduced if the premises are found not to be in good condition, and we are currently arranging a survey.

Investing in Communities

The quarter 1 budget monitoring report to Cabinet in July 2019 outlines the revenue funding released as a result of late notification of one-off grant funding from Welsh Government towards teachers' and firefighters' pay and pensions. Cabinet has proposed that an 'Investing in Communities Fund' be established with £2 million of this funding to support the capital minor works programme, by enabling more capital improvement works to be undertaken on Council assets in our local communities. The criteria for allocating this funding will be determined in due course, but all allocations will require approval from Corporate Management Board.

Council are requested to approve these for inclusion within the Capital Programme in accordance with the Constitution, and to approve the virement of the £2,349,797 from school delegated budgets to council wide budgets to contribute to the capital investment.

- 4.8 In March 2019 Council approved a change to the funding envelope for Band B of the School Modernisation Programme and for this to be incorporated into the capital programme. The previous funding option meant that all 5 schemes in the Band B programme would be funded through capital grants, with capital match funding provided by the Council. The revised funding option agreed by Council in March 2019 (option 3) means that 2 primary school schemes will now be funded through the Mutual Investment Model (MIM) which is primarily a revenue funded scheme, with revenue funded match funding provided by the Council. Consequently the capital programme has been amended to reflect this

reduced capital commitment to the Band B programme. The revenue implications of this change in funding will be picked up as a revenue budget pressure as part of a future Medium Term Financial Strategy.

- 4.9 There are a number of other schemes within the Capital Programme that are awaiting confirmation of external funding over the summer period. Once approval is known, it may also result in some schemes needing re-profiling. The Capital Programme has not been updated at this time for these schemes and further reports will be brought to Cabinet and Council in the Autumn for approval.

A Revised Capital Programme is included as **Appendix B**.

Prudential and Other Indicators 2019-20 Monitoring

- 4.10 In February 2019, Council approved the Capital Strategy for 2019-20, which included the Prudential Indicators 2019-20 to 2021-22 together with some local indicators. This follows the publication of the revised Prudential Code for Capital Finance in Local Authorities (the Prudential Code), which placed a new requirement on Local Authorities to determine a Capital Strategy, for approval by full Council, which demonstrates that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
- 4.11 The Capital Strategy is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability. To this end, a number of prudential indicators were included, and approved by Council. In line with the requirements of the Prudential Code, the Chief Finance Officer is required to establish procedures to monitor both performance against all forward-looking prudential indicators and the requirement specified.
- 4.12 The Prudential Code requires the Council to set and report on a number of Prudential Indicators and states that:-

“The Chief Finance Officer (CFO) is required to establish procedures to monitor both performance against all forward-looking prudential indicators and the requirement specified. The CFO will need to establish a measurement and reporting process that highlights significant deviations from expectations”.

In February 2019, Council approved the revised Financial Procedure Rules, determining Cabinet as the body to receive the monitoring report on the Capital Strategy and Prudential Indicators. **Appendix C** details the actual indicators for 2018-19, the estimated indicators for 2019-20 set out in the Council’s Capital Strategy and the projected indicators for 2019-20 based on the revised Capital Programme. These show that the Council is operating in line with the approved limits.

Capital Strategy Monitoring

- 4.13 The Capital Strategy also requires the monitoring of non-treasury management investments and other long term liabilities. The Council does have an existing investment portfolio which is 100% based within the County Borough and primarily the office and industrial sectors. The income streams are generally spread between the single and multi-let office investments on Bridgend Science Park, the multi-let industrial estates and the freehold ground rent investments. The total value of Investment Properties was £4.635 million at 31 March 2019.
- 4.14 The Council previously approved £1 million within the capital programme for the purchase of investment assets and spent £520,000 on acquiring an office building, which generates a rental income of £56,000 per year or just over 9% return on the investment. There is a further £480,000 available within the capital programme but as yet no suitable options have been identified within the Bridgend area, which would produce a reasonable return and at acceptable levels of risk. The Council may in the future wish to consider expanding its property investment portfolio, in which case it would need to review the criteria and investment strategy but this would be on a risk based approach.
- 4.15 The Council has a number of Other Long Term Liabilities which are included within the Capital Strategy. These include the following:-

Private Finance Initiative

The Council has a Private Finance Initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. This forms a long-term liability for the Council which is £17 million at 31 March 2019. This is a 25 year agreement which will end during the 2033-34 financial year.

Llynfi Valley Loan

The Council received a loan from the Welsh Government Central Capital Retained Fund for regeneration works within the Llynfi Valley in March 2014. Capital works have not yet commenced. Officers are currently in discussion with Welsh Government on this Loan, which is due to be repaid by the end of the financial year, about some possible options including the extension of the Loan into 2020-21.

Salix Loan

During the first quarter of 2019-20, the Council has received a £374,000 loan from Welsh Government Energy Efficiency Loans Programme. This was equivalent to the capital spend in 2018-19 for Street Lighting up to the end of February 2019. A further loan will be received in this financial year to cover the 2019-20 capital expenditure. The Loan will be repaid from revenue budget savings for energy efficiency.

5. Effect upon Policy Framework and Procedure Rules

- 5.1 As required by Financial Procedure Rule 3.5.3 within the Council's Constitution, "The Chief Finance Officer shall report quarterly to Cabinet an update on the Capital Strategy and the Prudential Indicators."

6. Equality Impact Assessment

- 6.1 Projects within the capital programme will be subject to the preparation of Equality Impact Assessments before proceeding

7. Well-being of Future Generations (Wales) Act 2015 Implications

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. As the report is for information it is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report. Specifically the development of a 10 year capital programme, which reflects the Council's affordability in terms of capital receipts and borrowing, supports the principle of sustainability over the long term.

8. Financial Implications

- 8.1 The financial implications are outlined in the body of the report. Any capital receipts released as a result of schemes being removed from the capital programme will be re-allocated to other schemes already included within the programme, but funded from external borrowing, to reduce potential borrowing costs and therefore reduce the pressure on the revenue budget.

9. Recommendation

- 9.1 It is recommended that Council:

- note the capital programme for the period 1 April 2019 to 30 June 2019 (**Appendix A**);
- approves the revised Capital Programme (**Appendix B**);
- note the projected Prudential and Other Indicators for 2019-20 (**Appendix C**).
- approve a revenue budget virement of £2,349,797 from school delegated budgets to council wide budgets, to fund capital expenditure as outlined in paragraph 4.7.

Gill Lewis
Interim Head of Finance and Section 151 Officer
1 July 2019

Contact Officer: Nigel Smith
Interim Group Manager – Chief Accountant

Telephone: 01656 643359

E-mail: Nigel.Smith@bridgend.gov.uk

Postal Address: Bridgend County Borough Council
Chief Executive's - Finance
Raven's Court
Brewery Lane
Bridgend
CF31 4AP

Background documents:

Capital Strategy 2019-20– Report to Council 20-02-19

Medium Term Financial Strategy 2019-20 onwards – Report to Council 20-02-19