

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

22 OCTOBER 2019

REPORT OF THE INTERIM HEAD OF FINANCE & SECTION 151 OFFICER

CAPITAL PROGRAMME UPDATE - QUARTER 2 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 for 2019-20 at 30 September 2019 (**Appendix A**)
- seek agreement from Cabinet to present a report to Council for 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**)

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 The Prudential Code for Capital Finance in Local Authorities requires Local Authorities to have in place a Capital Strategy 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. 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.

3.4 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). The capital programme was last updated and approved by Council on 24 July 2019. This report provides an update on the following areas:

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

4. Current Situation / Proposal

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 last approved by Council and incorporates any new schemes and grant approvals. The revised programme for 2019-20 currently totals £38.133 million, of which £18.504 million is met from BCBC resources, including capital receipts and revenue contributions from earmarked reserves, with the remaining £19.629 million coming from external resources. Table 1 below shows the capital programme for each Directorate from the July 2019 approved Council position to quarter 2 :-

Table 1 – Capital Programme per Directorate 2019-20

Directorate	Approved Council 24 July 2019	New Approvals & Adjustments	Virements	Slippage to future years	Revised Budget 2019-20
	£'000	£'000	£'000	£'000	£'000
Education & Family Support	5,456	1,061	1,332	(674)	7,175
Social Services and Well-being	1,259	165	217	0	1,641
Communities	43,661	1,169	(1,549)	(18,184)	25,097
Chief Executive's	4,095	125	0	0	4,220
Total	54,471	2,520	0	(18,858)	38,133

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	5,504	0	5,504
Grants	0	16,416	16,416
Earmarked Reserves	7,308	0	7,308
Unsupported Borrowing	349	0	349
Supported Borrowing	3,938	0	3,938
Other Loans	600	2,246	2,846
Revenue Contributions	805	0	805
Other Contributions	0	967	967
TOTAL	18,504	19,629	38,133

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.

4.4 A number of schemes have already been identified as requiring slippage of budget to future years (2020-21 and beyond). At quarter 2 the total requested slippage is £18.858 million, which includes the following schemes:

Depot Rationalisation (£7.802 million)

At present, efforts are being centred on identifying, designing & carrying out the necessary works to allow members of the Green Spaces team to occupy the refurbished facilities at the Bryncethin Depot. With regards to Waterton Depot, the project is currently at the design phase, with the anticipated works stage due to commence in 2020-21 and continuing into 2021-22. The Capital Programme has now been amended to reflect the current position (see Appendix B for full detail of movements).

Fleet Replacement Programme (£1.672 million)

On 18 December 2018, Council approved a budget of £1.6 million for the purchase of replacement highway maintenance vehicles. At present, specifications for a number of these vehicles are being drawn up with a view to starting the tender process late October/early November 2019. Due to estimated build times, it is envisaged that delivery of vehicles will take place in the first quarter of 2020-21.

21st Century Schools Programme (£0.543 million)

Following the delivery of the Council's 21st Century Schools Band A schemes, a residual budget of £0.643 million from the Council's own resources has been identified. With the next phase (Band B) of the programme in its early stages, precise total scheme costs are unknown, therefore it is requested that this slippage is retained within the capital programme to compliment the Band B budgets already approved by Council.

Relocation of Household Waste Recycling Centre (£1.292 million)

The new Community Recycling Centre (CRC) scheme in Village Farm Industrial Estate was given planning consent in May 2019. The tender documents have now been finalised and documentation agreed. The project is also reliant on the completion of improvement works at the junction of A48 and Heol Mostyn. The improvement design is currently on going and it is envisioned that the road works will commence in April 2020 with completion by the end of summer 2020. The CRC construction will commence at the same time with a view to operational transfer in winter 2020.

Highways Bridge Strengthening/Carriageway resurfacing (£3.583 million)

As a result of the award of the recent Economic Stimulus grant from Welsh Government (see 4.5), it is proposed to fund relevant highways schemes in 2019-20 and use the released budget to be spent either in 2019-20 or rolled forward to 2020-21 to fund new schemes in line with the ethos of the grant.

Capital Asset Management Fund (£0.8 million)

On 20 February 2019, Council approved a new fund to meet the costs of works in order to comply with any health and safety or other legislative requirements in respect of the Council's assets. Whilst awaiting the launch of the new Welsh Purchasing Consortium (WPC) procurement framework by Swansea Council, BCBC have been organising surveys of the highest priority properties in order to mitigate risk until the receipt of the remainder of the surveys. In the interim it is expected that circa £200,000 of capital remediation works will be undertaken in this financial year with a request to carry forward £0.8 million into 2020-21.

Corporate Landlord Energy Savings Strategy (£0.585 million)

Council has approved £1.3 million of capital to fund energy investment projects using prudential borrowing. Work is progressing and the Council will be seeking tenders from service providers to deliver the works using a Welsh Government Refit procurement framework. Invitation to Tenders are due to be sought later in the calendar year and a tenderer appointed by the end of the financial year. Welsh Government has Salix funding available and officers are appraising using this source in addition to / instead of prudential borrowing. There is a financial advantage in using the Salix funding as it is interest free, although there will be some grant conditions to comply with. Given current tight procurement timescales, should Salix provide better value for money in terms of funding and an application to Welsh Government is successful, then the prudential borrowing will be swapped for Salix Funding in the next version of the capital programme.

Capital Programme 2019-20 Onwards

- 4.5 Since the last capital report in July 2019, there have been a number of new externally funded schemes approved, which have been incorporated into the capital programme, including:

Community Hub – Brynteg Comprehensive

In June 2019, the Council was awarded £1.044 million of grant funding following a successful bid to Welsh Government's 21st Century schools programme.

The grant will fund the construction of a dedicated community hub building at Brynteg School. The East Hub, which is currently located at Civic Offices, would relocate to the new building (subject to the necessary approvals). The provision follows the locality hub model and allows for close integrated working between professionals from council departments (including locality safeguarding teams, the Inclusion Service and Education Psychology Service staff) and non-local authority professionals including health visitors and police liaison officers. The work of the Hub will focus on children, young people and families, where the team around the family is key to a multi-agency approach in providing a wide range of support and services to vulnerable families in need within Bridgend. Additional agencies and professionals will provide added value. By support services working together, it aims at improving confidence and resilience in children, young people and families, whilst supporting the reduction of crisis and vulnerability.

Valleys Regional Park (VRP) – Bryngarw and Parc Slip

On 17 September 2019, Cabinet gave approval to accept funding of £900,000 from WG in respect of projects at Bryngarw Park (£500,000) and Parc Slip (£400,000). In addition, Cabinet also gave approval for the Council to enter into agreements with delivery partners to support the activities being delivered at Bryngarw Park (AWEN) and Parc Slip (Wildlife Trust). Details of both schemes can be found in the aforementioned Cabinet report but both will aim to maximise the social, economic and environmental potential of the valleys' natural, cultural and heritage assets. It is intended that the VRP will provide and sustain the

improvement and management of a highly visible network of uplands, woodlands, nature reserves and country parks, rivers, reservoirs and canals, heritage sites and attractions across the Valleys, linking with the towns and villages. Funding will be split over the next two financial years, £579,000 in 2019-20 and £321,000 in 2020-21.

Caerau Heat Network

A report was presented to Cabinet on 23 July 2019 to provide an update on the Caerau Mine Water Heat Project and delegate authority to the Section 151 Officer and Head of Legal and Regulatory Services to accept a revised funding offer from Welsh European Funding Office (WEFO) and to enter into any funding and legal agreements. The scheme is in its final stages of approval with WEFO and this is anticipated imminently, hence the scheme's inclusion in the Capital Programme.

Economic Stimulus Grant

On 29 August 2019, Welsh Government awarded the Council with an Economic Stimulus grant of £0.887 million. The purpose of the grant is to:

- invest in capital schemes to drive important changes in communities.
- fund a range of projects that can be delivered quickly in year, providing economic benefits which are aligned with the Welsh Government's priorities and which can stimulate wider economic demand at a time when it is needed most.
- consider any positive impacts on biodiversity and the environment that can be delivered through the investment of this funding.

As the funding is required to be applied to expenditure in 2019-20 it is proposed to utilise this against relevant planned Highways schemes (see 4.4 for details) and allow internal funding to slip in to 2020-21. This will afford officers and Members the time to consider the opportunities and options that arise from receiving the grant.

- 4.7 There are a number of other schemes within the Capital Programme that are awaiting confirmation of external funding over the autumn 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 due course for approval.

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

Prudential and Other Indicators 2019-20 Monitoring

- 4.8 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.
- 4.9 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.
- 4.10 **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

- 4.11 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.
- 4.12 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.
- 4.13 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 half 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.

9. Recommendation

- 9.1 It is recommended that Cabinet:

- note the Council's Capital Programme for 2019-20 for the period to 30 September 2019 (**Appendix A**);
- agrees that the revised Capital Programme (**Appendix B**) be submitted to Council for approval;
- note the projected Prudential and Other Indicators for 2019-20 (**Appendix C**).

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Background documents:

Capital Strategy 2019-20– Report to Council 20 February 2019
Capital Strategy Report Q1 2019-20 – Report to Council 24 July 2019
Medium Term Financial Strategy 2019-20 onwards – Report to Council 20 February 2019