

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

21 JANUARY 2020

REPORT OF THE INTERIM HEAD OF FINANCE & SECTION 151 OFFICER

CAPITAL PROGRAMME UPDATE - QUARTER 3 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 31 December 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 20 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 23 October 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 £33.700 million, of which £15.057 million is met from Bridgend County Borough Council (BCBC) resources, including capital receipts and revenue contributions from earmarked reserves, with the remaining £18.643 million coming from external resources, including General Capital Grant. Table 1 below shows the capital programme for each Directorate from the October 2019 approved Council position to quarter 3:

Table 1 – Capital Programme per Directorate 2019-20

Directorate	Approved Council 23-Oct-19 £'000	New Approvals & Adjustments £'000	Virements £'000	Slippage to future years £'000	Revised Budget 2019-20 £'000
Education & Family Support	7,175	234	180	(1,203)	6,386
Social Services and Well-being	1,641	65	0	0	1,706
Communities	25,097	426	20	(3,955)	21,588
Chief Executive's	4,220	0	(200)	0	4,020
Total	38,133	725	0	(5,158)	33,700

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	3,823	0	3,823
Grants	0	15,547	15,547
Earmarked Reserves	5,552	0	5,552
Unsupported Borrowing	349	0	349
Supported Borrowing	3,938	0	3,938
Other Loans	600	2,246	2,846
Revenue Contributions	795	0	795
Other Contributions	0	850	850
TOTAL	15,057	18,643	33,700

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.

- 4.4 A number of schemes have already been identified as requiring slippage of budget to future years (2020-21 and beyond). At quarter 3 the total requested slippage is £5.158 million, which includes the following schemes:

Maesteg Town Hall (£1.6 million)

The Maesteg Town Hall Re-development project has been progressing confidently, albeit with some programme suspension due to further design work and a delay in receiving tender sums. Within the next few weeks, and subject to construction cost agreement, the Authority will be looking to enter into contract for the construction phase. Due to the above, £1.6 million of the scheme has been slipped into 2020-21.

In light of additional structural surveys being undertaken as part of the RIBA stage 4 technical design and tendered market returns on various work packages, the total project cost, prior to a value engineering exercise to reduce the total cost without detriment to the overall re-development, is circa £8.2 million. The main uplift in costs is as a result of additional survey work being undertaken which has identified unavoidable asbestos removal and roof replacement works.

In July 2019, a capital update report to Council outlined the anticipated total project cost to be circa £6.3 million. This has now been revised to £8.2 million. The increase to the capital programme of £1.9 million is the worst case scenario and is being funded from a virement of the Economic Stimulus grant of £0.133 million, an allocation of £0.779 million from the Investing in Communities capital allocation, £0.375 million of recycled capital receipts, £0.46 million Special Regeneration Fund/Earmarked Reserve funding and increases to external funding of £0.16 million.

Officers are working closely with Awen who have applied for a further grant (£0.3 million) and applications for further funding from CADW have been submitted (£0.1 million). As indicated, a value engineering exercise is also being undertaken, and receipt of additional grant funding or cost savings will be returned to the Investing in Communities capital allocation.

Community Hub – Brynteg Comprehensive School (£0.768 million)

The scheme was programmed to be completed by the end of March 2020. However, there was a delay in obtaining planning approval and the most economically advantageous tender was significantly over the available construction budget. These issues had a detrimental effect in achieving Welsh Government's required spend by year-end. A request for additional funding of £0.284 million, and to slip £0.768 million into 2020-2021, received Welsh Government approval.

Additional Learning Needs (ALN) provision at Cefn Cribwr Primary School (£0.387 million)

The project will create two observation classrooms with associated toilets, cloak areas and storage plus a space for interventions/withdrawal, within the site of Cefn Cribwr Primary School and remove one 'D' rated mobile classroom, demolish the former changing room (currently used as store) and provide a

secure external soft play area. The total scheme budget is £0.513 million. Tenders in the region of £0.5 million are undergoing evaluation and slippage of £0.387 million is expected.

Ravens Court (£0.442 million)

In February 2019, Council agreed the establishment of an annual Corporate Capital Fund of £0.2 million, from which allocations would be agreed by Corporate Management Board (CMB). CMB has agreed to vire the 2019-20 allocation into the Raven's Court Minor Works Scheme along with £0.017 million of capital minor works funding. This will supplement the £0.245 million already allocated to provide a replacement heating, ventilation and air conditioning (HVAC) system at Ravens Court offices, which will mitigate current failures, address health and safety issues and provide energy savings going forward giving a total budget of £0.462 million. The system is at the end of its operational life and options appraisal and feasibility work have been undertaken to determine the most suitable replacement system. It is anticipated that the work will be carried out in the latter half of this calendar year and will require the temporary decant of staff on a wing-by-wing basis to enable these works.

Estimated fees this year are circa £0.02 million with the work commencing in the summer of 2020. Slippage of £0.442 million will therefore be required into 2020-21.

Parks/Pavilions/Community Centres CAT (£0.66 million)

On 22 October 2019 Cabinet approved the introduction of full cost recovery on the hire charges for pavilions and playing fields from September 2020, and this was reconfirmed at the Special Meeting of Cabinet on 13 November 2019 following a Call-in of the original decision. This is likely to mean that, although slippage of £0.66 million is required this year, usage of the fund will increase significantly in the future as work is undertaken to improve assets ready for transfer.

Non Operational Assets (£0.48 million)

The Council previously approved £1 million within the capital programme for the purchase of investment assets and spent £0.52 million on acquiring an office building, which generates a rental income of £0.056 million per year. There is a balance of £0.48 million 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.

Capital Programme 2019-20 Onwards

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

Community Hub – Brynteg Comprehensive (£0.284 million)

The Council has been successful in receiving an additional £0.284 million in respect of this scheme which will enable close integrated working between professionals from council departments and non-local authority professionals including health visitors and police liaison officers.

Capital support for the implementation and expansion of separate household collections of absorbent hygiene product (AHP) waste (£0.238 million)

The Council has been successful in receiving an award of £0.238 million from Welsh Government in respect of the above scheme. The scheme involves the purchase of two vehicles and ancillary equipment together with a rental charge for use of the Council's depot facilities by Kier Services Limited (Kier), the company carrying out the waste collection services on behalf of the Council. The Council will receive, as consideration for this, a revenue reduction in the waste collection service charge from Kier over the next 4 years, at the end of which the vehicles will revert to ownership by the Council.

Urban Centre Property Enhancement Fund (£0.1 million) and Urban Centre Living Grant (£0.05 million)

The Council has been successful in entering into a Service Level Agreement with Rhondda Cynon Taff County Borough Council in respect of the above Targeted Regeneration Investment (TRI) schemes. Delegated authority to award grants to property owners/long term tenants within Bridgend Town Centre was approved by Cabinet on 18 June 2019.

- 4.6 Other schemes which have material changes since the October report are as follows:

Coastal Risk Management Scheme - Porthcawl (£6.032 million)

The scheme has been identified as a priority as part of the Flood and Coastal works required to protect properties in the Porthcawl area. The scheme has been subject to a project appraisal and an outline business case submitted and approved by Welsh Government as part of their Coastal Risk Management Programme. Following approval of the submitted outline business case, funding to carry out the detailed design was secured. The detailed design has now been submitted for planning and the updated business case is to be submitted to Welsh Government. The Business Case seeks to secure funding to the value of £6.032 million for refurbishment of the Western Breakwater, improvement of the Eastern Promenade, repairs to Rhych point and introduction of a dune management system to enhance and retain the relic dunes at Sandy Bay. These works will protect approximately 531 Residential and 175 Business Properties.

If the scheme is approved, this will be funding 75% from Welsh Government grant (£4.523 million) and 25% from BCBC (£1.509 million). An earmarked reserve has been set up in respect of the Council contribution.

21st Century Schools Band B Programme

The overall funding envelope for the programme has been increased to reflect the capital contributions required for the 2 proposed Mutual Investment Model (MIM) funded schemes within the overall programme. Whilst these will primarily

be funded from revenue budgets there is a requirement to fund furniture, equipment and ICT from the capital budget. This will be funded at the same intervention rate as capital grant funded schemes, namely 65% Welsh Government and 35% BCBC. The overall funding of the programme within the capital budget has been revised and updated to reflect current intervention rates. All schemes will be subject to full business cases and any changes to the overall funding envelope will be reported back to Cabinet and Council as necessary.

Welsh Medium Childcare Provision.

The design team working on the project have indicated that completion of the Bettws element of the scheme, which was originally scheduled to be in September 2021, can now be achieved in January 2021. The Council has been successful in obtaining approval from Welsh Government for a change in the funding profile and as a result £0.481 million of the spend has been brought forward from 2021-22 to 2020-21.

School Maintenance Grant

It was originally intended to fund the replacement of the mobile classroom at Cefn Cribwr Primary School using part of this grant. However delays in obtaining an acceptable price from the contractors tendering for the work have resulted in that element of the grant, which needed to be utilised in 2019-20, being used to fund other minor works schemes. This has released £0.513 million to fund the Cefn Cribwr scheme.

Complex and Medical Needs Works in Schools

CMB has agreed to vire £0.180 million from the Capital Asset Management Fund to complete the ALN provision at Pencoed Comprehensive School.

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, which is yet to be confirmed by Welsh Government.

- 4.7 There are a number of other schemes within the Capital Programme that are awaiting confirmation of external funding over the winter 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 has a number of Other Long Term Liabilities which are included within the Capital Strategy. Details of these were provided in the Quarter 2 Report to Cabinet. No new loans have been taken out in Quarter 3.

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. 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 31 December 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

Capital Strategy Report Q2 2019-20 – Report to Council 23 October 2019

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