

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

19 JULY 2022

REPORT OF THE CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE CAPITAL PROGRAMME OUTTURN 2021-22 AND QUARTER 1 UPDATE 2022-23

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) 'The Prudential Code for Capital Finance in Local Authorities' (2021 edition)
- provide details of the capital outturn for 2021-22 (**Appendix A**)
- provide an update of the capital position for 2022-23 as at 30 June 2022 (**Appendix B**)
- seek agreement from Cabinet to present a report to Council for approval for a revised capital programme for 2022-23 to 2031-32 (**Appendix C**)
- note the projected Prudential and Other Indicators for 2021-22 and 2022-23 (**Appendix D**)

2. Connection to corporate well-being objectives / other corporate priorities

2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:-

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great 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 for all people in the county borough.
2. **Helping people and communities to be more healthy and resilient** – taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

2.2 Capital investment in the Council's assets is a key factor in meeting the Council's well-being objectives 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. The Council's Capital Strategy, incorporating the Prudential Indicators for 2022-23, was approved by Council on 23 February 2022.

3.4 On 24 February 2021 Council approved a capital budget of £62.363 million for 2021-22 as part of a capital programme covering the period 2021-22 to 2030-31 and Council received regular updates and approved revisions through the year. Although Council approved new schemes for the 2022-23 capital programme in June 2022, the capital programme for 2021-22 was last updated and approved by Council on 23 February 2022. This report provides an update on the following:

- Capital Programme outturn 2021-22
- Capital Programme monitoring quarter 1 2022-23
- A revised Capital Programme for 2022-23 to 2031-32
- Capital Strategy monitoring
- Prudential and other indicators

4. Current situation/proposal

4.1 Capital Programme Outturn Position 2021-22

4.1.1 This section of the report provides Members with an update on the Council's capital programme for 2021-22. The original budget approved by Council on 24

February 2021 has been revised and approved by Council during the year to incorporate budgets brought forward from 2020-21 and any new schemes and grant approvals. The programme for 2021-22, approved by Council in February 2022, totalled £50.082 million, of which £28.800 million is met from Bridgend County Borough Council (BCBC) resources, including capital receipts, revenue contributions from earmarked reserves and borrowing, with the remaining £21.282 million coming from external resources.

4.1.2 **Appendix A** provides details of the individual schemes within the capital programme, showing the budget available in 2021-22 compared to the actual spend. Since the last report presented to Council in June 2022 there have been a few minor amendments to the 2021-22 Programme. The main changes are:

- new approvals of £2.306 million mainly as a result of new grant schemes from Welsh Government (WG) – these include £1.162 million for Free Schools Meals Capital, £0.250 million Transforming Towns for Maesteg Town Hall, £0.159 million Transforming Towns for Urban Centre Property Enhancement and £0.163 million Integrated Care Funding (ICF) for the Children’s Residential Hub. There has also been a £0.441 million revenue contribution to capital to fund the installation of upgraded ICT infrastructure in schools.
- £0.046 million funding brought back from 2022-23 to reflect updated spend profiles.

WG awarded the Council with £2.880 million grant towards Band B Land Purchase which, whilst not changing the total cost of the scheme, the funding profile has been changed to reflect this additional funding.

This brings the revised budget for 2021-22 to £52.434 million.

4.1.3 Total expenditure as at 31 March 2022 was £29.741 million which, after slippage of £21.252 million into 2022-23 and adjustments to grant funded schemes of £1.395 million, results in a total under spend of £0.046 million, which will be returned to Council funding. During the year a number of schemes have commenced but not been completed or have been moved wholly into 2022-23. These include the Children’s Residential Accommodation Hub, Cosy Corner, Bridgend’s capital contribution to City Deal, and Bridgend Heat Scheme. Slippage has arisen as a result of the Covid-19 pandemic and also due to a number of other reasons, including delays in starting projects due to the need to undertake more detailed survey works, supply chain issues and ongoing discussions with funding bodies and other general programme delays.

4.1.4 Slippage forecast to be spent in 2022-23 of £21.252 million is required, the main schemes being;

- £2.260 million Llynfi Loan. The works were unable to be tendered until September 2021 following which only one tender was returned and this was substantially greater than envisaged and beyond that previously agreed by Welsh Government. A request for an extension

of time to allow for the retender and delivery of the works was therefore submitted to Welsh Government with ministerial approval being obtained in March 2022. Following the necessary subsequent revision to the engineering scope of works and to the works specification in order to reflect recent changes in legislation and ensure compliance, the works were retendered in May 2022. Welsh Government grants panel has now approved the revised project costs pending ministerial approval.

- £2.092 million School Capital Maintenance. Following the Council being awarded a School Capital Maintenance grant of £2.436 million in quarter 3, there have been a number of underspends due to internal and external resource availability, which have meant that the grant has been used to fund various other schemes in the capital programme, as allowed in the grant terms and conditions, and the retrospective earmarked reserve and capital receipts funding displaced and slipped for use in 2022-23.
- £2.028 million Land Purchase Band B. The land transactions in relation to the proposed new English-medium school to serve the traditional catchment areas of Corneli and Afon Y Felin Primary Schools, the replacement Ysgol y Ferch o'r Sger and the replacement Heronsbridge School have not yet completed. All are progressing well. Currently the agreements are in the form of Option Agreements which are likely to delay the timing of the capital required to complete the purchases. This approach firmly aligns the acquisitions to the consultation processes attributed to these proposed school developments and reduces the financial risk profile considerably. We anticipate £0.678 million to be spent during 2022-23 with the remainder £1.350 million to be fully utilised in 2023-24.
- £1.677 million of funding for minor capital works has slipped due to delays in completing a number of schemes.
- £0.998 million Maesteg Town Hall. The scheme has slipped mainly due to the active realisation of the impact Covid-19 is having in the supply of materials and workforce. This has meant that lead in times for materials has been longer than anticipated and there is a reduction in available workforce.
- £0.797 million Welsh Medium Childcare provision at Ogmore. The scheme has slipped as a result of a retender necessitated by the demise of WRW Construction Limited (who had been the appointed contractor for the scheme).
- £0.553 million Economic Stimulus. A significant amount of resource was made available from Welsh Government to support the local economy as a result of the pandemic. This resource, and the requirement to deliver it efficiently to the business community, has meant that the funding can be rolled forward to 2022-23 to support

the economy as it looks to develop resilience following the pandemic and grow in future years.

- £0.484 million Welsh Medium Childcare provision at Bettws. The scheme was delayed due to additional drainage investigations and supply chain issues.

4.2 Capital Programme Quarter 1 Update 2022-23

4.2.1 This section of the report provides Members with an update on the Council's capital programme for 2022-23 since the budget was last approved by Council and incorporates any new schemes and grant approvals. The revised programme for 2022-23 currently totals £98.134 million, of which £59.148 million is met from Bridgend County Borough Council (BCBC) resources, including capital receipts, revenue contributions from earmarked reserves and borrowing, with the remaining £38.986 million coming from external resources, including General Capital Grant. Table 1 below shows the capital programme for each Directorate from the June 2022 approved Council position to quarter 1:

Table 1 – Capital Programme per Directorate 2022-23

Directorate	Approved Council June 2022 £'000	Slippage Brought forward from 2021-22** £'000	New Approvals £'000	Virements £'000	Slippage to future years £'000	Revised Budget 2022-23 £'000
Education & Family Support	11,335	7,386	383	-	(1,350)	17,754
Social Services and Well-being	2,857	831	98	123	-	3,909
Communities	54,858	9,910	5,125	-	-	69,893
Chief Executive's	2,720	2,402	530	(123)	-	5,529
Council Wide	372	677	-	-	-	1,049
Total	72,142*	21,206	6,136	-	(1,350)	98,134

* Includes £0.184 million approved via delegated power subsequent to June Council

** £21.252 million from 2021-22 net of £0.046 million brought forward from 2022-23

4.2.2 Table 2 below summarises the current funding assumptions for the capital programme for 2022-23. 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 2022-23 Resources

CAPITAL RESOURCES	£'000
<i>BCBC Resources:</i>	
Capital Receipts	20,084
Earmarked Reserves	21,376
Unsupported Borrowing	7,774
Supported Borrowing	3,953
Other Loans	4,306
Revenue Contribution	1,655
Total BCBC Resources	59,148
<i>External Resources:</i>	
WG General Capital Funding	8,282
Grants	30,704
Total External Resources	38,986
TOTAL RESOURCES	98,134

4.2.3 **Appendix B** provides details of the individual schemes within the capital programme, showing the budget available in 2022-23 compared to the projected spend at 30 June 2022.

4.2.4 There are a number of amendments to the capital programme for 2022-23, such as new and amended schemes, since the capital programme was last approved including:

Levelling Up Fund - £4.500 million

On 14 June 2022 Cabinet approved the request to submit two bids to the Levelling up Fund (LUF), part of the UK Government's new levelling up and community investment suite of programmes. The two bids are for the redevelopment of Porthcawl Grand Pavilion and the replacement of Penprysg Railway Bridge. The Grand Pavilion bid is principally to address the issues of risk to the building fabric that exist in the condition of the structure, but also, to invest in a redevelopment of the building to accommodate extended and improved arts, hospitality and workshop spaces. With regard to Penprysg Railway Bridge, the bridge will be replaced and a new fully accessible active travel bridge will be provided at the level crossing.

These are two large scale priority projects for the authority and it is acknowledged that the delivery of these projects will require significant financial and grant investment. The LUF requires a 10% match funding contribution for the projects. The cost and split of grant and match funding for the two schemes is as follows:

Scheme	Timescale	Levelling Up Funding (90%)	BCBC Match Funding (10%)	Total Cost
		£	£	£
Porthcawl Pavilion	2022-2025	17,998,200	1,999,800	19,998,000
Penprysg Railway Bridge	2022-2026	22,500,000	2,500,000	25,000,000
Total		40,498,200	4,499,800	44,998,000

The match funding requirement for the two projects is £4,499,800, for which funding has been set aside in earmarked reserves, and demonstration of a commitment to match fund the schemes is a requirement of the funding bids.

These projects have not yet been tendered, and it is only at this point that confirmation of total project costs and a detailed financial breakdown can be confirmed. It is anticipated that a decision on the application will be made in late Autumn 2022, so no capital funding will be spent in advance of an approval. The grant will only be included in the capital programme should the bids be approved. If they aren't, the associated match funding will be removed from the programme. Only once approval for the grant contribution has been given will any spend on the schemes be permitted. The Council will seek to secure match funding towards these schemes where possible, and where opportunities arise, to replace the Council's contribution.

Sustainable Communities for Learning Band B - £15.461 million

The second wave of Welsh Government's (WG) 21st Century Schools programme (recently renamed Sustainable Communities for Learning) began in April 2019. At that time WG produced a set of costs and size standards to support schemes. The WG grant intervention rates for capital schemes is 65% for mainstream schools, 75% for special schools and the capital costs associated with the revenue funded schemes (that is, Mutual Investment Model) funded at 65%. The remaining balances are funded by local authorities which will include any additional provision that is required over and above the size standards (for example, part-time nursery places).

The 2019 cost standard rates have been fixed since that time. However, following Brexit and the COVID-19 pandemic, the industry has seen a significant increase in construction costs. WG has responded to this increase accordingly and has produced a set of revised cost standard rates. The revised rates have been applied to the local authority's Band B schemes, which has resulted in the need for an increased capital contribution in order to deliver the planned programme.

In addition, schemes will be required to demonstrate delivery of Net Zero Carbon in operation plus a 20% reduction on the amount of embodied carbon (that is, the carbon emitted through construction materials and the construction process). WG has advised that 100% of the additional costs to meet this commitment under this current wave of investment will be fully funded.

However, the additional costs required to deliver on local policy (for example, part-time nursery places) will need to be met by the local authority.

On 30 May 2022, WG confirmed the funding process in terms of the Mutual Investment Model Stage 1 capital design fees for the Bridgend West Primary Schools scheme. BCBC is required to contribute 35% of the cost of the stage 1 design fees, in addition to its one-off contributions to ICT and fixed furniture and equipment. Welsh Government will fund the remaining 65%. For Bridgend the design fees contribution is an additional £0.172 million, out of a total fee of £0.491 million, which is now built into the overall capital cost.

The revised capital budget for the programme is now £64.966 million, compared to £49.505 million previously. The increase in Welsh Government grant funding is £12.080 million, and approval is sought to increase the Council's capital contribution to the above programme by £3.381 million, for which funding has been set aside in earmarked reserves.

Active Travel Fund - £4.242 million

WG has awarded the Council with £4.242 million funding in relation to the Active Travel fund. The purpose of the Active Travel Fund is to increase levels of active travel, improve health and well-being, improve air quality, reduce carbon emissions, connect communities and improve active travel access to employment, education and key services, destinations and public transport. It will include an allocation for Pyle to Porthcawl (Phase 1) and Bridgend to Pencoed (Phase 3), as well as various other smaller schemes.

Community Focused Schools - £0.930 million

WG has awarded the Council with £0.930 million funding to be used to safely adapt and effectively open schools outside traditional hours through a number of targeted small and medium scale capital investments, thus enabling community use of existing facilities.

Homelessness and Housing £0.530 million

To respond to increasing housing and homelessness cases it is proposed that the Council provides funding to Valleys to Coast (V2C) to support a refurbishment programme which will bring back into use 35 long term empty properties, or 'voids', which require significant investment. V2C has secured £2.1 million of grant funding from Welsh Government to undertake these works and the Council will provide match funding of £530,000, funded from a revenue contribution from existing housing budgets. V2C has confirmed that the properties will be available to the Council for nomination rights and to support those individuals and families in temporary accommodation. The properties will be refurbished to meet the Welsh Housing Quality Standards with increased energy efficiency and, in some cases, will be extended and adapted to meet identified housing needs. The Council has received independent legal advice on this arrangement which has confirmed that this action is compliant with the Services of Public Economic Interest (SPEI) requirements. The appropriate legal agreements will be put in place before funding is released.

20mph Default Speed - £0.580 million

WG has awarded the Council with £0.580 million of funding to be used to support the roll out of a 20mph default speed limit on restricted roads across Wales.

Coychurch Crematorium Works- £0.096 million

The current capital budget for planned works is £0.569 million but an additional £0.096 million is required to meet the planned capital maintenance spending requirements as agreed by the Crematorium Joint Committee in their meeting on 4 March 2022. This will be funded by a revenue contribution from the crematorium budget.

Brilliant Basics - £0.065 million

WG has awarded the Council with £0.052 million of funding to enable the completion of the Porthcawl Cycle Scheme and for the Installation of Smart recycle bins. An additional £0.013 match funding is also required which will be met from within existing Strategic Regeneration Fund (SRF) revenue budgets.

Fleet - £0.042 million

To enable the purchase of one minibus for Coleg Cymunedol Y Dderwen (CCYD), funding of £0.042 million has been included in the capital programme in 2022-23, to be funded from a revenue contribution from the school budget.

4.2.5 A revised Capital Programme is included as **Appendix C**.

4.3 Prudential and Other Indicators 2022-23 Monitoring

4.3.1 In February 2022, Council approved the Capital Strategy for 2022-23, which included the Prudential Indicators 2022-23 to 2024-25 together with some local indicators.

4.3.2 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.

4.3.3 **Appendix D** details the actual indicators for 2021-22, the estimated indicators for 2022-23 set out in the Council's Capital Strategy and the projected indicators for 2022-23 based on the revised Capital Programme. These show that the Council is operating in line with the approved limits.

4.4 Capital Strategy Monitoring

4.4.1 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 £5.585 million at 31 March 2022.

- 4.4.2 The Council has a number of Other Long Term Liabilities which are included within the Capital Strategy, the most significant being the Maesteg School Private Finance Initiative (PFI). The Council has a PFI arrangement for the provision of a Secondary School in Maesteg. This forms a long-term liability for the Council which is £13.902 million at 31 March 2022. This is a 25 year agreement which will end during the 2033-34 financial year. Other long term liabilities totalling £0.227 million include lease arrangements for the Innovation Centre and the Council's Waste Contract.

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 Act 2010 implications

- 6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales, the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. Projects within the capital programme will be subject to the preparation of Equality Impact Assessments before proceeding. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

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 well-being 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. Recommendations

- 9.1 It is recommended that Cabinet:

- notes the capital outturn for 2021-22 (**Appendix A**)

- notes the Council's Capital Programme 2022-23 Quarter 1 update to 30 June 2022 (**Appendix B**)
- agree that the revised Capital Programme (**Appendix C**) be submitted to Council for approval
- notes the projected Prudential and Other Indicators for 2021-22 and 2022-23 (**Appendix D**)

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Background documents: None