

REPORT OF CAPITAL WORKING GROUP: FINAL DRAFT FOR COMMENT

Introduction

1. The terms of reference for the Working Group reflected the longstanding concerns of the Governance & Audit Committee about the level of cost for new capital projects. However, soon after embarking on this work, it became apparent that the review also needed to cover consideration of the Council's existing asset base – to which new Capital projects are added to on completion - and its management. This broadened scope is considered in detail below, with **Recommendations** arising highlighted in **bold** text.

CAPITAL PROGRAMME

2. There is a 5-year Capital Programme as part of the Council's Treasury Management and Capital Strategy which is included in the 5 Year Medium Term Financial Strategy (MTFS). A significant omission is the full Rolling 9 Year Programme from 2024 for Schools Transformation. Also, given the time scale for individual projects from inception, through design and procurement, contract sign-off to construction, fitting out and hand-over, a minimum rolling 10-year Powys CC Capital Programme was considered essential going forward. This needs to incorporate as much detail as possible, revised, and updated as and when new information becomes available.
3. Such long-term visibility is seen as essential going forward given future budgetary constraints. This will enable, for example:
 - a. Visibility on where projects are in their life cycle from initial proposal through to completion, the latest cost estimate, potential and identified funding sources, etc.
 - b. Informing and alignment with Sustainable Powys, Net Zero Strategy and the Local Development Plan.
 - c. Profiling of Mid Wales Growth Fund bids, (and joint bids for Marches cross-border projects) and other bids for grant funding, including the costs of working up these bid proposals.
 - d. Enabling strategic decision making on whether to proceed with, defer, modify, or cancel projects in the light of future budget levels.
 - e. Proactive lobbying of the Welsh and UK Governments in shaping future grant funding schemes to best meet the identified needs of Powys

residents and communities, i.e. an evidence base to help inform rather than respond to Governments' agendas/initiatives

- f. Long term joint planning with partner organisations to align budgets and timescales for delivering projects with mutual beneficial outcomes.

4. The Group noted the Cabinet's negative response to the proposal of the Finance Panel to move to a 10 Year Capital Programme and accepted that the lack of certainty with high level costings and other variables beyond 5 years could create a situation of being 'hostage to fortune' should these be published. Officers assured Group members that they held details of a 10 years+ Programme as a working document which was under constant review, covering the points in paragraph 3 above, and formed the basis for the MTFS.

5. The Council's Net Zero ambitions extend to 2030. This, combined with the eventual outcomes of Sustainable Powys, will call for consideration of further extension of this working programme period.

6. Specific recommendations are:

a. Appendix H (*Capital and Treasury Management Strategy 2024-29*) needs to be expanded with details of specific projects, identifying:

- (i) The current stage in the Business Case approval process**
- (ii) Details of how it is proposed that the projects are to be funded, e.g., Council Budget, Borrowing, Reserves, Welsh Government and/or other sources of grant support, and the amount of any overall funding shortfall.**
- (iii) The likelihood of carry-over or projects slipping from the current Welsh Government Band B funding round from which £113K has been allocated to the Council, and whether these costs would be met from the new Rolling Programme.**

Costings for Capital Projects

7. Members of the Governance & Audit Committee have been mindful of the headline comparison of somewhat outdated (2019) Welsh Government indicative costings on a per pupil space basis with the outturn costs incurred by the Council. At the same time there was an appreciation of the need for other factors to be considered, such as improved environmental standards for construction introduced pre-COVID such as replacement of gas/oil fired heating with air source heat pumps and meeting Passive Haus standards. These have added to inflationary pressures which have been compounded post-COVID through increases in building material costs, labour wage inflation, rurality, and securing competitive tender bids in such an unprecedented context.
8. Costings are worked up in greater detail and scrutinised as projects evolve from the initial concept stage through the full 5 Case Business Case Model (with the equivalent RIBA Stages), culminating in the Final Business Case Stage when funding is approved. N.B. cost escalation can result in re-tendering at a key stage.
9. The Council has a track record of innovative procurement methods such as modular Design & Build (D&B), Traditional (+Scape), and bundled D&B – applied where considered the most appropriate for the project(s) in hand.
10. Aware of anecdotal reports of Powys CC costs being significantly higher than elsewhere in Wales, the Group noted that the Cost yardsticks did not cover abnormal costs such as building on sloping sites. The Group therefore welcomed the independent report from Aecom which compared new build primary school costs in Wales with similar projects in other Local Authorities. This exercise found that after taking all relevant factors into account the costs for Powys schools was just 5% more than the average for Wales.

- 11. As the Council propose to commission a refresh report it is recommended that this also considers new and special schools and reflects final outturn costs as opposed to Final Business Case costs.**

Funding of Capital Projects

12. The following are the Group's deliberations based on Officers' presentations on the Schools Capital Programme. Whilst some of the conclusions and recommendations are specific to this Programme, many are seen as equally applicable to the overall Capital Programme.
13. The Group noted the intervention rates for various types of School for Welsh Government grant in aid, which is the first funding to be drawn down, with the balance to be found by the Council. The Welsh Government grant approval letter is issued following receipt of the final tender and sets upper and lower limits.
14. The Council has pioneered joint working with the Welsh Government on cost management for Ysgol Maes Y Trallwng from concept stage to outturn and fell within the top decile (10%) of their Gateway Review. This, together with the submission of early and robust cases to cover additional costs, has led to funding flexibility on the part of the Welsh Government. Extra-over costs incurred in delivering Net Zero requirements are currently being met by Welsh Government on a 100% basis. However, there is recent evidence of 'tightening' on their part.
- 15. This approach is considered best practice on the part of the Council and is to be applauded. However, the First Minister has signalled significant pressures on the Welsh Government budget leading to cuts in public services. This flexibility on the part of the Welsh**

Government therefore cannot be assumed going forward so reinforces the need for well informed, timely and realistic budgeting of the future Capital Programme.

- 16. There also needs to be a recognition that with future budgetary pressures, regular scrutiny may lead to informed decision making on whether projects proceed or not, are re-prioritised, modified or delayed, in the context of 'doing something versus doing nothing.' The Programme therefore needs to be viewed as a whole and not on an individual project basis and be flexible according to the funding available at the time.**
- 17. At the same time, increased disposal receipts can lead to increased investment in priority projects so should be promoted as an incentive to identifying potentially surplus properties for disposal, including through the annual Integrated Business Planning process.**

SMALL CAPITAL PROJECTS

- 18. The Group has not considered projects under the £5m threshold for the 5 Case Business Case Model. However, our recommendations are seen as equally applicable to these smaller scale projects, especially given the cumulative effect.**
- 19. The Group notes the allocation of budgets for small capital works direct to Service Areas and the Strategic Invest to Save Fund. The latter has produced 'quick wins' such as the installation of solar panels on schools and community buildings. The submission of more bids should be promoted, especially in the light of findings of School and Asset Condition and Net Zero Surveys, with the potential for solar battery power and dual electricity tariffs fully exploited.**

RECEIPTS

- 20. The Property Service has an annual target of £2m for disposal receipts, with a forecast of £4m for 2023/24. The Group recognises**

that with budgetary pressures there will be a need to maximise future disposal receipts. However, this will need to be undertaken within the context of the Asset Management Strategy Review, which is considered below, and framed by policy decisions arising from Sustainable Powys; i.e. in a strategic as opposed to *ad hoc* manner which has mainly been the case to date.

EXISTING POWYS COUNTY COUNCIL ASSET BASE

21. Cabinet approved an Asset Management review in October 2022. Whilst the Group has received a presentation from the Cabinet Lead and held constructive dialogue with Officers, it has not been privy to the detailed terms of reference.
22. A review of the whole Council Estate comprising 560 buildings is being undertaken. This is being underpinned by Building Condition Assessments, utilising external consultants to expedite the process, of which 25% have been completed, increased to 30% (2023-24). Leisure Centres, Libraries and Day Centres are included in these Assessments, with schools covered on an *ad hoc* basis as part of the Transformation Review.
23. The Review includes the Farm Estate for which the vast majority of the condition surveys have now been carried out. The whole topic of the Farm Estate is discussed in further detail below. This is a high-profile topic which must not be viewed in isolation. The Asset review could well identify properties/sites which could generate much higher receipts on disposal.

Examples of Good Practice

24. There was evidence of good practice albeit that the Review has not yet been completed. For example:
 - a. The scope for Estate rationalisation arising from the post-COVID shift to working from home. This has led to the letting of surplus office space in County Hall to the Welsh Government, resulting in the

- safeguarding and creation of well-paid jobs and improvements to the building's fabric.
- b. Declaration as surplus properties with high maintenance costs.
 - c. Council Officers have been proactive in convening regular meetings of public bodies in the County to act as a clearing house/brokerage for surplus office space and promoting the shared occupation of buildings.

FARM ESTATE

25. The comprehensive review of the Council's Farm Estate relates to condition, retention, re-investment or disinvestment.

26. In the County Farm Estate Delivery Plan 2018, the then Leader stated "progressive rationalisation" of the estate cannot continue indefinitely, and the need for the physical integrity of the estate to be maintained to maintain its long-term integrity'. These statements have been reinforced by the findings of the condition surveys. There would be a huge cost involved in bringing the farmhouses and building up to current day standards for occupation, slurry storage and disposal, etc. This cannot be financed through re-investment of the rental income alone. There is possibly a case for 'ring-fencing' of part or whole of future Farm Estate disposals to fund these works. However, this needs to be considered in the context of overall budget priorities. Ongoing financial constraint will very much inform fundamental decisions on whether to retain holdings with accompanying investment and a disposal strategy. At the same time proper regard must be had to the effectiveness of the Farm Estate in meeting its fundamental objective of providing stepping stones for new entrants to the sector to move on to and up the farming ladder.

27. The Council's rationalisation and disposal activities to date have released or amalgamated small unviable holdings as and when they have become, maximising receipts through the sale of

resultingly surplus farmhouses and farm buildings. This has led to an Estate becoming increasingly configured in holding sizes and locations aimed at attracting new farm entrants to starter units with the scope for moving on to progression units (and a small number of full-time holdings) in the locality within a reasonable timescale through lettings under fixed term Farm Business Tenancies. Whilst this approach has been managed in a robust manner it was surprising to find that the Council does not hold details of the number of tenants which drop out on expiry of these tenancies, the numbers who progress to a larger holding but do or do not move into full time farming in their own right; i.e. a test of the extent to which the Farm Estate is meeting its prime objective. In drafting terms of reference for a consultancy report Officers took on board the Group's recommendation that a desk study of case files is undertaken to ascertain this evidence to help inform decisions on the future of the Farm Estate.

28. The Group very much looks to an objective, well informed and strategic decision being made on the future size and shape of the Farm Estate as neither the status quo nor an ad hoc receipts target approach are considered options going forward. It does not envisage a binary decision, i.e. whether to retain or dispose, which was the case with the much smaller Herefordshire Farm Estate. **The decision should be framed:**

- a. In the context of the Council's overall Asset Management Strategy,
- b. By the outcomes of Sustainable Powys,
- c. Having due regard to Powys being a rural county with farming and tourism a mainstay of its economy,
- d. The objective of supporting new entrants to farming as viable tenants, with the opportunity to progress up the farming ladder,
- e. The level of income generated for recycling to maintain and improve the retained estate,

The scope for the estate contributing to meeting the Council's Net Zero and Green Powys Agenda, including growing more food locally through supporting small horticultural enterprises, community energy generation sites.

30.The cost estimate for upgrades from the Condition Survey should readily identify farmhouses and holdings that do not justify the upgrading costs, and which can be disposed of – generating receipts for investment in more viable units to be retained.

31.Some farms on the Farm Estate now act as hubs for the tenants who have created viable holdings over time though the purchase and renting of additional land nearby from private landowners. The Group considers that the merits of these being sold to sitting tenants if fundamental to the overall viability of their farming enterprise; or if not disposed of when vacant possession can be secured.

WOODLAND & AMENITY LAND

32.The Group has not considered this asset group but highlights the potential for transfer into third party ownership and management, such as Community Land Trusts without any detriment to the enjoyment of these resources by Powys residents and visitors. Indeed, improvements could be made through these bodies utilising the services of volunteers and accessing grants.

CONCLUSIONS

33.The Cabinet has acknowledged that a crossroads has been reached regarding future budget pressures. Matters have come to a head with the post-COVID inflationary pressures, acceptance that the status quo cannot be maintained after years of efficiency savings and increasing signals from the Welsh Government of austere times ahead. Financial prudence has been the Council's watchword when it comes to maintaining reserves and levels of borrowing, and it is essential for this to continue. Difficult decisions therefore need to be made on service provision and asset retention. Hence, the Council has embarked on Sustainable Powys - a wide-ranging engagement on the framing of these decisions which will have profound implications for future services and how they are delivered, and related investment.

34.The Group recommends that the Audit & Scrutiny Committee plays an active role in Sustainable Powys. The above recommendations have

been drafted at the formative stage of Sustainable Powys. They are seen as capable of standing alone of the intervening period but would add most value through being embedded in the Sustainable Powys process from evidence gathering, through public engagement and the eventual decisions on policies and the detailed implementation.