

**CYNGOR SIR POWYS COUNTY COUNCIL.**

**CABINET EXECUTIVE**

**13 March 2018**

**REPORT AUTHOR: County Councillor Aled Davies  
Portfolio Holder for Finance**

**SUBJECT: Capital Programme Update for the period to 31<sup>st</sup> January  
2018**

**REPORT FOR: Decision**

**1. Current Capital Programme 2017-18**

1.1 The revised Capital Programme after accounting for approved virements is £79.816m (Dec £87.643m), of which committed expenditure is £62.941m (78.9%) (Dec £59.190m 67.5%) of the budget an increase of £3.751m or 5.96% during the month.

1.2 The actual spend to the end of January is £42.083m (spend to the end of December was £38.6m).

1.3 Table 1 below summarises the position for each directorate and service.

**1.4 Table 1 Capital Table as at 31<sup>st</sup> January 2018**

Service	Original Budget	Virements Approved	Virements Required by Cabinet	Virements Required by Council	Revised Working Budget 2017/18 as at 31st January 2018 (after virements approved and required)	Actuals	Commitments	Remaining Budget	
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	%
<b>People</b>									
Adult Services & Commissioning	0	1,095	0	0	1,095	106	0	989	90.3%
Childrens Services	0	289	0	0	289	0	0	289	100.0%
Housing	2,943	-320	0	0	2,623	1,157	561	905	34.5%
<b>Schools and Inclusion</b>	30,086	-1,509	-170	-1,091	27,316	17,541	4,352	5,423	19.9%
<b>Workforce, OD and Comms</b>	0	0	0	0	0	0	0	0	
<b>Resources</b>									
Business Services	446	233	0	0	679	361	75	243	35.8%
Information Services	1,192	783	-275	0	1,700	347	925	428	25.2%
Legal Services	0	23	0	0	23	4	0	19	82.6%
Financial Services	500	-432	0	0	68	0	0	68	100.0%
Corporate Activities	0	0	0	0	0	0	0	0	
<b>Place</b>									
Highways, Transport & Recycling	21,826	-878	0	0	20,948	11,143	4,331	5,474	26.1%
Leisure & Recreation	4,451	5,356	0	0	9,807	3,585	4,676	1,546	15.8%
Regeneration, Property & Commissioning	3,655	361	0	-1,000	3,016	461	382	2,173	72.0%
<b>Total Capital</b>	<b>65,099</b>	<b>5,001</b>	<b>-445</b>	<b>-2,091</b>	<b>67,564</b>	<b>34,705</b>	<b>15,302</b>	<b>17,557</b>	<b>26.0%</b>
Housing Revenue Account	21,260	-599	-5,099	-3,310	12,252	7,378	5,556	-682	-5.6%
<b>TOTAL</b>	<b>86,359</b>	<b>4,402</b>	<b>-5,544</b>	<b>-5,401</b>	<b>79,816</b>	<b>42,083</b>	<b>20,858</b>	<b>16,875</b>	<b>21.1%</b>

## 2. Funding

2.1 The funding of the capital programme is shown in Table 2. This stands at £79,816k as at 31<sup>st</sup> January 2018 and has reduced by £7,826k from that reported at the end of December. This reflects the virements above and additional grants listed in section 4.

### 2.2 Table 2 Funding of the Capital Budget as at 31<sup>st</sup> January 2018

	Revised Working Budget 2017/18 as at 31 <sup>st</sup> January 2018 (after virements approved and required)					
	Supported Borrowing	Prudential Borrowing	Grants	Revenue Contributions To Capital	Capital Receipts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
COUNCIL FUND	10,805	19,980	21,320	4,509	11,048	67,662
HRA	0	2,711	2,115	5,656	1,672	12,154
<b>Total</b>	<b>10,805</b>	<b>22,691</b>	<b>23,435</b>	<b>10,165</b>	<b>12,720</b>	<b>79,816</b>

## 3. Virements as at 31st January 2018:

3.1 **Roll forward of 1.29m into financial year 2018-2019 of the HRA Non Traditional Properties budget;**

3.2 External Wall Insulation (EWI) - Initially there was a 4 month delay in procuring the EWI works and they were eventually awarded in July 2017. Two events during June and July also had an adverse effect and delayed the programme further.

3.3 We were advised by Welsh Government and attended a Seminar where one of the main topics were Radon Gas, a further delay was incurred while we sought levels of Radon in our Housing areas via a post code survey. It is conclusive that EWI increases the level of Radon in a property and therefore a monitoring exercise was carried out on some properties in the high Radon areas prior to the installation of EWI and we will continue monitoring once the EWI has been installed, this will provide us with sufficient evidence moving forward on whether we need to carry out remedial work to install additional ventilation to alleviate any raised Radon levels.

3.4 Due to the Grenfell disaster, we had to suspend all works while we firstly carried out a scrutiny of our buildings, seeking advice from experts such as Building Research Establishment (BRE) and the manufacturers of our products, to ensure they were all compliant and caused no hazards or risks to our tenants and assets in the form of our buildings, we also liaised with designers and again manufacturers, for forward planning, to determine if we needed to build in additional fire breaks especially between blocks of flats.

3.5 **Roll forward of £4.33m of HRA budgets into financial year 2018-2019** the delay in awarding the WHQS Framework Contracts until July has reduced our working year by 4 months. Furthermore, we have been waiting for the procurement of the following Contracts – Heating, doors and windows, and Dynamic Purchasing System, which will cover all our Estate Works including level access and remodelling and reconfiguration. This has prevented us from awarding many programmes of work this current financial

year. Due to the delays highlighted above, the compliance date for WHQS has been moved from March 2018 to December 2018, it is therefore imperative that we roll the underspend from this financial year forward to ensure that we meet the new target date.

The amounts to be rolled forward for each budget virement are all below £500K and are detailed in the table below:

<b>Project Area</b>	<b>Roll Forward Required</b>
Bathrooms North	£190k
Bathrooms South	£70k
Rewiring North	£235k
Rewiring South	£19k
Windows/Doors North	£300k
Windows/Doors South	£280k
Wallwork North	£60k
Wallwork South	£40k
Estate Works North	£450k
Estate Works South	£450k
Gwaelod Y Bryn	£240k
Fairview	£500k
Heating North	£500k
Heating South	£105k
Fit for Purpose North	£135k
Level Access Bungalows North	£125k
Level Access Bungalows South	£155k
Fit for Purpose South	£125k
External Wall Insulation	£350k

**3.6 Roll forward of £720k of HRA Roof South budget into financial year 2018-2019.** Challenge from a Contractor with regards to the roofing contract in the South of the County, has prevented completion of the programme planned for 2017/2018.

**3.7 Roll forward of £395k of the HRA Asbestos Management budget into financial year 2018-2019:**

Once works commenced on Wyeside Gardens in Hay on Wye, a large Housing estate, we unearthed large amounts of asbestos containing materials behind the tiled facades and beneath the roof eaves, not known to us previously. For the work to progress, the asbestos had to be removed and the planning and removal process has had a detrimental impact on the programme, whereby we have been unable to complete as many properties as we originally anticipated.

During this time, however we have reviewed the programme of works developed by Savills and taking into account the poor energy efficiency on some properties, and have used this data where possible to improve the Standard Assessment Procedure rating and

Energy performance of some properties not originally identified We would therefore like to roll the budget forward into next financial year.

- 3.8 **Roll forward of £1.3 million of the allocated new build budget into financial year 2018-2019**, as the 4 current new development project officers are working at full capacity and are unable to progress more than the 8 sites currently under consideration.

#### 4. **Grants accepted as at 31<sup>st</sup> January 2018**

- 4.1 Additional Grant of £2,600 from the Federation of Museums (Welsh Government) for the conservation of Artefacts at Brecknock Museum.
- 4.2 An award of £2.3m from Welsh Government (WG) to be invested on Highways networks has been accepted. This grant displaces Prudential borrowing in 2017/18.
- 4.3 Award of Funding £1m from Welsh Government for Brecon Cultural Hub in relation to the Regeneration Capital Pipeline Projects 2017/18.

#### 5. **Capital Receipts**

A capital receipt occurs when an asset of the authority is sold. Capital receipts can only be used to finance new capital expenditure or repay loans. In 2015/16 Welsh Government issued a directive that enabled Authorities to use capital receipts obtained during the year to finance the revenue costs from transformation incurred in the same period. This option has been utilised in both 2015/16 (£1.6m) and 2016/17 (£0.9m), a further £0.5m is forecast to be capitalised in 2017/18. This could impact the need for additional Prudential Borrowing. This directive ends on 31<sup>st</sup> March 2018. Welsh Government are currently reviewing this policy.

- 5.1 The current capital receipt target, excluding the HRA, for 2017/18 is £1m for Property and £1m for County Farms, of which £213k has been agreed subject to contract and £881k has actually been received to date. Since the last report, three small strips of land, totalling £42k have been sold.
- 5.2 The HRA is still subject to Right to Buy Disposals. Total receipt to date is £920k.
- 5.3 A recent decision by Cabinet to suspend declaring any further property from the Farm estate surplus, will effectively mean the target for capital receipts will not be met in future.

#### 6. **Borrowing Requirements**

- 6.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 6.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

- 6.3 Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

**CFR Position:**

	As at 31.03.17 Actual	2017/18 Original Estimate	2018/19 Original Estimate	2019/20 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	307,524	326,461	357,224	382,433

The Authority had outstanding long-term external debt of £226.4M at 31<sup>st</sup> March 2017. In relation to the CFR figure for 31<sup>st</sup> March 2017, this equated to the Authority being under borrowed by £81M. This is a prudent and cost effective approach in the current economic climate. However, members will be aware that internal borrowing is only a temporary situation and officers have advised that, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years. The following temporary borrowing is applicable to this financial year. It is expected that temporary borrowing will be necessary on further occasions throughout the financial year.

Date	Lender	Type	Amount	Rate
29-Sep-17	Manchester City Council	Fixed to 5/10	5,000,000	0.20000
20-Oct-17	Powys Pension Fund	Fixed to 23/10	730,000	0.20000
24-Oct-17	Powys Pension Fund	Fixed to 25/10	300,000	0.20000
30-Oct-17	Newport City Council	Fixed to 7/11	5,000,000	0.14000
31-Oct-17	Rhondda Cynon Taff CBC	Fixed to 6/11	3,000,000	0.20000
30-Nov-17	Scarborough Borough Council	Fixed to 5/12	4,000,000	0.35000
04-Dec-17	Powys Pension Fund	Fixed to 6/12	1,000,000	0.40000
05-Dec-17	Powys Pension Fund	Fixed to 6/12	750,000	0.40000
28-Dec-17	Manchester City Council	Fixed to 4/1	6,000,000	0.38000
23-Jan-18	Powys Pension Fund	Fixed to 30/1	1,050,000	0.40000
30-Jan-18	Middlesbrough Borough Council	Fixed to 12/2	5,500,000	0.36000
31-Jan-18	Hastings Borough Council	Fixed to 5/2	5,000,000	0.40000

Alongside this, it is likely that some longer term borrowing will take place, if interest rates are conducive to this. This is a prudent approach to ensure some borrowing takes place whilst interest rates are at their low levels as opposed to borrowing at a future date at increased rates.

- 6.4 The CFR figures above include the increase in the amount of long-term borrowing that is anticipated in 2017/18. Any borrowing undertaken will have a revenue implication which includes both the payment of interest on the loan and the repayment of the principal of the loan via the Minimum Revenue Provision (MRP) required. MRP is a statutory and prudent way of setting aside the funds required to repay loan principal in the future. Work is also ongoing to improve the forecast for capital spend so that Treasury Management

are able to improve the cashflow predictions for the authority. The net cost of borrowing together with the MRP are the real capital charges.

6.5 The virements in section 3 have an impact on the CFR figures for future years. In addition, any capital bids and approved projects for future years will increase the CFR. This in turn increases the MRP and the borrowing requirements. The real capital charge revenue budgets, while showing an underspend in the current year, will require additional budget to meet the additional borrowing and MRP costs in future years.

6.6 It is important to highlight that there is likely to be an underspend on the capital financing revenue budget because the actual spend on capital is lower than predicted and we anticipate further virements to roll forward capital budgets into 2018/19.

7. **Options Considered/Available**

No alternative options are considered appropriate as a result of this report.

8. **Preferred Choice and Reasons**

None to consider.

9. **Impact Assessment**

Is an impact assessment required?

**No**

10. **Corporate Improvement Plan**

To achieve the Corporate Improvement Plan (CIP) objectives the Council undertakes forward planning with its medium term financial strategy (MTFS) - this sets out the financial requirements to deliver the short and longer term council vision. These capital and revenue monitoring reports, are used to ensure the funding identified to deliver the council priorities is spent appropriately and remains within a cash limited budget.

11. **Local Member(s)**

This report relates to all service areas across the whole County.

12. **Other Front Line Services**

This report relates to all service areas across the whole County.

13. **Communications**

This report has no specific communication considerations. Detailed finance reports are presented to Heads of Service, Cabinet and the Audit Committee. These reports are public and are part of a range of statutory and non-statutory financial information documents including the Statement of Accounts.

14. **Support Services (Legal, Finance, HR, ICT, BPU)**

This report has no specific impact on support services other than reporting on those service areas with capital programmes. Financial Services work closely with all service areas in monitoring financial performance on capital programmes against budgets. The Capital and Financial Planning Accountant confirms that the projects included in section 3 are included in the Capital Programme.

**15. Scrutiny**

This report presents financial information which will help inform the future capital strategy and therefore has implications for any related organisation.

**16 Statutory Officers**

The Head of Financial Services & Acting Section 151 Officer notes the contents in the report.

The Monitoring Officer has no specific concerns with this report.

**17. Members' Interests**

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
a. <b>The contents of this report are noted by Cabinet; and</b> b. <b>The Capital virements set out in Section 3 are approved, and those over £500k be submitted to full council for approval.</b>	<b>To outline the capital budget position as at 31<sup>st</sup> January. To ensure appropriate virements are carried out.</b>

<b>Relevant Policy (ies):</b>			
<b>Within Policy:</b>	<b>Y / N</b>	<b>Within Budget:</b>	<b>Y / N</b>

<b>Relevant Local Member(s):</b>	
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<b>Person(s) To Implement Decision:</b>	
<b>Date By When Decision To Be Implemented:</b>	

<b>Contact Officer Name</b>	<b>Tel</b>	<b>Fax</b>	<b>E mail</b>
Jane Thomas	01597-826341	01597-826290	<a href="mailto:jane.thomas@powyscc.gov.uk">jane.thomas@powyscc.gov.uk</a>