

CABINET REPORT

28 March 2017

Cabinet Member: Councillor Peredur Jenkins

Subject: The Council's Asset Plan 2009/10 to 2018/19

Contact Officer: Dilwyn Williams, Chief Executive

Required decision

The Cabinet is asked to

- i. Note the likely final position with the 10 year Asset Plan;
 - ii. Confirm that we no longer require the £15m provision for social care in the current Plan and that the requirements for that service be considered as part of the new Plan to be established by the new Council;
 - iii. Allocate £200,000 of the £2.14m revenue provision for unsupported borrowing which will not now be required to meet the 2016/17 savings requirement;
 - iv. That £800,000 of this resource be used to supplement the repairs and maintenance programme from 1 April 2017, leaving the remainder for the new Council to decide upon when considering its savings and asset requirements for the future.
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Background

1. In 2009, following a detailed assessment of the Council's capital spending requirements, and in recognising the fact that our resources would not allow us to meet all of those requirements, a series of workshops for all Council members were convened to try and establish our capital priorities for the following 10 years.
2. As a result of these discussions an Asset Plan was established and it was adopted by the Council on the 22 October 2009.
3. The full plan can be seen by following the link given below –

https://democracy.cyngor.gwynedd.gov.uk/Data/Full%20Council/20091022/Agenda/16_01_Corporate%20Asset%20Strategy.pdf

4. 2018/19 will be the last year of the present Plan and early in the next financial year, the new Council will need to establish a new strategy for the 2018/19 – 27/28 period.
5. This report's purpose is to inform the Cabinet of what has happened over the life of the Plan and close the loop on aspects of the original plan.
6. In general, the Plan anticipated capital spending of £143.8m over the 10 year period. A summary of the matters covered by the plan is given in Appendix 1.
7. The intention was to fund the £143.8m by utilising the following funding streams -
 - i. Capital allocation by the Government – £98.7m
 - ii. Capital Receipts (a programme of asset disposals for those assets which we did not need was agreed in order to meet our capital needs) - £14.1m
 - iii. Specific grants from government departments - £4m
 - iv. Unsupported Borrowing - £23m
 - v. To be found - £4m
8. The Plan anticipated that we would have to use £23m of unsupported borrowing (that is to say, borrowing without financial support from the Government), which would mean having to find revenue savings to fund the borrowing.
9. At the time, we calculated that we would need a revenue budget of £909,100 for each £10m we would want to borrow which meant that we needed to find revenue savings of £2.091m to fund the borrowing we anticipated.
10. The 2009/10 revenue budget already included £1.55m of revenue savings set aside to borrow the required amount with an intention to add to this amount in the following years. [By 2012/13 the Council had managed to raise this sum to £2.7m]

Later developments

11. Soon after adopting the Plan two significant issues arose which meant we had to change it.

12. By 2011/12 the effect of the banking crisis had worked itself through to the public purse and the support we received from the Welsh Government for our capital programme reduced from £9.9m annually to the £6.67m we receive today. This meant that we lost resources amounting to £23.75m over the life of the Plan.
13. Other calls upon the Plan had also appeared, namely the need for the Council to find match funding if we wanted to take advantage of the Government's schools improvement grants initiative. We successfully attracted resources in order to achieve a number of schemes (including Bro Dysyni; Schools in the Penllyn area; Y Gader; Groeslon; Glan Cegin and Hafod Lon). This entailed £34.84m of expenditure on top of that already included in the Asset Plan funded by £22.83m of school improvement grants and £12.01m to be found by the Council.
14. There was also some concern at the time that we would have to do something about the crisis in the Care sector and it was also agreed that we should set aside £15m in the Plan in case we needed to do something in the area.
15. In December 2011, the Council agreed to incorporate the changes to the Plan and to try and find the additional £50.76m by utilising further unsupported borrowing.
16. In theory, on the basis of the calculation made in 2009, this would have meant that we needed to increase the required revenue budget from £2.7m to £6.7m in order to fund all of the unsupported borrowing.
17. Over the following years, the Council also added further capital requirements in the form of an addition to the Hendre School project (£2.93m); an addition to the spending on schools organisation in order to allow us to prepare plans (£1.26m); and a recognition of higher capital costs associated with waste disposal (£1.11m).

Assessment of the current position

18. The first thing to note is that we have not managed to find the £6.7m which we thought we needed to fund unsupported borrowing following the 2011 review.
19. The reason is of course that austerity also found its way through to local authorities' revenue budgets which meant that every penny of savings that we could find needed to be diverted to meet the revenue funding gap which had arisen.

20. However, having adopted an Annual Minimum Revenue Provision Statement as part of our Treasury Management strategy which sets out a policy to repay unsupported borrowing over a specified period of up to 50 years, and taking into account that interest rates are now at historically low levels, we now estimate that we would only need £2.9m to fund all of the £73.76m which would be needed [the original £23m and the £50.76m noted in clause 13 above.]
21. There were also other developments.
22. The need for capital resources in the Care sector has not arisen over the period of the Plan. Any resources which were required (e.g. Frondeg Centre) were funded by utilising revenue savings from within the business case, and diverting social housing grant to extra care housing schemes. The £15m will not be used in the Plan's timeframe (although it may need to be reinstated when preparing the next plan).
23. We have also managed to reduce the need to spend by various methods –
 - i. Having received grant support to improve the condition of our roads we were able to reduce the dependency on the Asset Plan;
 - ii. We managed to find alternative ways to avoid having to spend on "Vic Hallam" type structures in our schools;
 - iii. In disposing of assets we reduced the need to spend on the repairs and maintenance backlog;
 - iv. We have changed the way we renew some vehicles; and
 - v. We received grant funding to finance an element of our carbon reduction programme.
24. We also managed to generate higher capital receipts than expected, and set aside further revenue reserves - although the decision not to dispose of the Victoria Dock dampened the effect somewhat.
25. In addition, we have limited the amount of inflation released from the provision by ensuring that schemes are limited to the original sums where possible.
26. One side effect of proper planning is that due to the fact that we had already set aside revenue resources to fund unsupported borrowing from the outset, and as we do not have to give effect to that borrowing immediately due to the spend profile within the plan, for each year that we do not need to borrow, £2.7m of additional resource (or however much is left in the budget after funding unsupported borrowing) is available to supplement the funding for the programme.

27. This has meant that we have been able to provide a further £16.92m of resources over the life of the plan.

28. By the time we arrive at the final year of the plan, it is anticipated that this will be the position in relation to changes in the need to spend and the funding requirement -

Addition (reduction)	Sum £m
Spending	
Schools projects	39.03
Road improvement scheme (Welsh Government Grant to fund borrowing)	11.87
Reduction in the need for repairs & maintenance as a result of asset disposal	(2.07)
Social Care Provision (Original £15m now not required)	-
Reduction in spending on roads and bridge maintenance as a result of the grant scheme	(5.80)
Reduction in the spending on the Carbon scheme due to funding from Salix	(1.20)
Finding an alternative way of dealing with "Vic Hallam" type buildings in schools	(3.88)
Reduction in the need for capital to renew vehicles	(1.70)
Additional Waste Strategy costs	1.11
Limiting the release of inflation	(14.77)
Total additional net spending needs	<u>22.59</u>
Funding	
School improvement grants	22.83
Grant to fund road improvements	11.87
Additional capital receipts and reserves	2.79
Accumulated borrowing provision not used	16.92
Reduction in Government borrowing support	(23.75)
Unsupported borrowing funded from the capital charges revenue budget	2.27
Total additional net funding	<u>32.93</u>
Reduction in the funding requirement	10.34

29. Despite all of these changes therefore the funding requirement has decreased £10.34m from the original plan for the reasons noted, but as the original plan was under funded by £3.97m, this means that the need for unsupported borrowing has decreased from the original £23m to £16.63m.

30. Originally we had anticipated that we would need £909,100 for each £10m we intended to borrow.

31. As a result of the changes noted in paragraph 20 above in relation to our treasury management strategy and much lower interest rates than those in effect at the time we prepared the plan, it now means that we have needed £394,275 for each £10m of borrowing and therefore we only needed £568,860 of the £2.7m set aside to fund the unsupported borrowing we will actually be undertaking.

32. We already knew an element of this picture when we set the savings programme for 2016/17, and assumed that £200,000 would be available for our savings programme. The additional efficiency savings for 2016/17 has assumed that this will therefore be available in order to meet the funding gap.

Repairs and Maintenance of Buildings

33. One fundamental aspect of the original plan was to try and rectify the repairs and maintenance backlog on our buildings which had built up over many years.
34. An assessment at the time identified that the backlog (that is to say the works required to bring buildings back to a satisfactory state of repair) amounts to a little over £20m. It was later identified as our systems improved that the sum was closer to £27m.
35. As the repairs and maintenance revenue budget is around £2.5m per annum, given that a backlog had been created this amount was insufficient. It was agreed at the time therefore that an additional provision of £1.5m per annum would be included in the plan to try and avoid the backlog getting worse.
36. We also provided for £1.9m per annum to try and get rid of the £27m backlog which had accrued by 2009/10.
37. A review conducted in 2015/16 showed that after spending £15.4m on the backlog it had reduced to £14.5m from the original £27m but of course we would have expected it to reduce to £11.6m if our original assumptions were correct.
38. This suggested that the £1.5m per annum we added to the repairs and maintenance budget was insufficient to avoid a continuing backlog growth and that we should be spending closer to £2.16m per annum if we wanted to avoid it growing.
39. Our experience has shown therefore that the additional spending has significantly reduced the repairs and maintenance backlog, but that there will continue to be a backlog at the end of the current Plan, and if we wish to ensure that it does not increase further, we need to spend over an additional £2m per annum on repairs and maintenance.
40. In the current environment that is going to be difficult but we should perhaps move in that direction.

Conclusions

41. Despite the significant reduction in Government support for our capital programmes, we have successfully achieved that which we set out to do in our Asset Plan and over the years we have managed to add further priorities as they arose.
42. Strong management of the programme has meant that we have managed to fund the additions to the original plan whilst reducing the amount of unsupported borrowing we required and lower interest rates have meant that we required less resource to fund that borrowing.
43. Our experience has shown that the additional £1.5m of repairs and maintenance funds are insufficient to avoid a further deterioration in the condition of our buildings and that the requirement is closer to £2m if we are to avoid further increases in the backlog.

Recommendations

44. It is therefore recommended that the Cabinet –
 - i. Notes the likely final position with the 10 year Asset Plan;
 - ii. Confirms that we no longer require the £15m provision for social care in the current Plan and that the requirements for that service be considered as part of the new Plan to be established by the new Council;
 - iii. Allocates £200,000 of the £2.14m revenue provision for unsupported borrowing which will not now be required to meet the 2016/17 savings requirement;
 - iv. That £800,000 of this resource be used to supplement the repairs and maintenance programme from 1 April 2017, leaving the remainder for the new Council to decide upon when considering its savings and asset requirements for the future.

APPENDIX 1

Summary of the contents of the Asset Plan adopted in October 2009

Expenditure on	Sum £m
Supplement the spending on repairs and maintenance to avoid further deterioration	15.00
Rectify the repairs and maintenance backlog	19.00
Steps to guard against fire and asbestos	5.60
Education :	
Provision in place of "Vic Hallam" type buildings which have come to the end of their life	15.30
Schools organisation	5.80
Provision for a new school in Bangor	4.50
Other education issues	2.64
Housing Renewal Grants	21.00
Highways and Municipal Services :	
Road Maintenance	8.00
Safety Fence Renewal	1.10
Street Lighting renewal	0.50
Waste Strategy	6.90
Vehicle renewal	3.40
Other minor Highways and Municipal issues	0.49
Regulatory :	
Preparation of Transport Schemes	1.10
Bridge and Retaining Wall maintenance	1.25
Cycle routes	0.20
Care Homes - minor improvements	0.50
Economic Development - Minor schemes	0.10
Information Technology renewal	3.90
Carbon management	2.00
Other buildings and systems	2.79
Provision for issues which would arise over time	5.00
Provision for inflation	17.75
Total	143.82

Views of the Statutory Officers**Chief Executive :**

Author of the report

Monitoring Officer:

The report includes a review and appropriate recommendations to bring the current plan to a conclusion and bridging towards the next plan. No further observations in terms of propriety.

Head of Finance:

The Finance Department has cooperated with the author in preparing the report and I confirm the accuracy of the content. I believe the recommendations to be sensible in the circumstances, until a new plan is brought before the Council.
