

ISLE OF ANGLESEY COUNTY COUNCIL

Report to:	EXECUTIVE COMMITTEE
Date:	18 JANUARY 2021
Subject:	INITIAL CAPITAL BUDGET 2021/22
Portfolio Holder(s):	COUNCILLOR R WILLIAMS
Head of Service / Director:	R MARC JONES
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Local Members:	n/a

A –Recommendation/s and reason/s

1. PURPOSE OF THE REPORT

1.1 The Executive is required to propose a capital budget for 2021/22, which will be presented to full Council for approval at its meeting on 9 March 2021.

2. RECOMMENDATIONS

2.1 To recommend to the full Council the following capital programme for 2021/22:-

	Ref	£'000
2020/21 Schemes Brought Forward	Para 4.1 & Table 2	3,970
Refurbishment / Replacement of Assets	Para 4.2.2 & Table 3	4,167
New One Off Capital Projects (Priority Projects)	Para 5.2 – 5.6 & Table 4	780
New One Off Capital Projects (Subject to Funding being Available)	Para 5.6	325
21 st Century Schools	Para 6	6,600
Housing Revenue Account	Para 7	20,313
Total Recommended Capital Programme 2021/22		36,155
Funded By:		
General Capital Grant		2,163
Supported Borrowing General		2,158
General Balances		596
General Balances (if sufficient funding available)		325
21 st Century Schools Supported Borrowing		2,897
21 st Century Schools Unsupported Borrowing		498
HRA Reserve & In Year Surplus		15,639
HRA Unsupported Borrowing		2,000
External Grants		5,909
2020/21 Funding Brought Forward		3,970
2021/22 Total Capital Funding		36,155

- To note the potential future funding requirements for 2022/23 onwards (Appendix 1, Table 3 and paragraph 5.3).

B – What other options did you consider and why did you reject them and/or opt for this option?

A number of additional schemes are to be considered in the capital programme with the main driving factor in funding being affordability and the maximisation of external grant funding.

C – Why is this a decision for the Executive?

The matter is delegated to the Executive to propose the capital budget.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?

N/A

DD – Who did you consult?

What did they say?

1	Chief Executive / Senior Leadership Team (SLT)(mandatory)	Incorporated into the report
2	Finance / Section 151(mandatory)	n/a – this is the Section 151 Officer's report
3	Legal / Monitoring Officer (mandatory)	
4	Human Resources (HR)	N/A
5	Property	Budget requirements have been reflected in the proposed budget
6	Information Communication Technology (ICT)	Budget requirements have been reflected in the proposed budget
7	Procurement	N/A
8	Scrutiny	
9	Local Members	N/A
10	Other	

E – Impact on our Future Generations(if relevant)

1	How does this decision impact on our long term needs as an Island	The capital budget ensures funding to maintain the Council's assets and forms part of the strategy to meet the objectives set out in the Council's corporate plan.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-	Continued maintenance of the Council's assets will prevent higher costs in the future.
3	Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:	Capital projects in respect of 21 st Century Schools and the HRA are aligned to priorities set out by the Welsh Government

4	Have Anglesey citizens played a part in drafting this way forward? Please explain how:-	The capital budget will be subject to a formal budget consultation prior to final approval by the Council in March 2021.
5	Outline what impact does this decision have on the Equalities agenda and the Welsh language	Elements of the capital programme contribute to the Equalities agenda e.g. Disabled Facilities Grants, Disabled Access in Schools, purchase of Chromebooks for school pupils.
F - Appendices:		
<p>Appendix 1 – Report on the Capital Budget 2021/22 Appendix 2 – Proposed Capital Budget 2021/22</p>		
FF - Background papers (please contact the author of the Report for any further information):		
<p>Capital Strategy Report – full Council 10 March 2020 Capital Budget 2020/21 – full Council 10 March 2020</p>		

DRAFT CAPITAL BUDGET 2021/22**1. INTRODUCTION**

- 1.1. The draft Capital Budget for 2021/22, set out below, takes into account the principles set out in the Capital Strategy which was approved by the Executive in March 2020 and the full Council in March 2020.

2. PRINCIPLES OF THE CAPITAL STRATEGY

- 2.1. The Capital Strategy for 2020/21 was approved by the Executive and full Council and will be updated for 2021/22 to reflect the new funding levels, any changes in the Council's priorities and any changes set out in the Council's Treasury Management Strategy for 2021/22, which will be approved by the Executive and full Council in March 2021.

- 2.2. The current Capital Strategy sets out the following principles for the Council in determining its capital programme:-

- Each year capital funding will be allocated to ensure an investment in existing assets to protect them into the future;
- The Council will maximise external capital funding wherever possible and affordable;
- Capital funding will also be prioritised on assets required to help the Council deliver its statutory responsibilities;
- The Council remains committed to the 21st Century Schools Programme and will continue to fully utilise 21st Century Schools external funding.
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- 2.3. The strategy then went on to provide a little more information on how these principles would be delivered and included the following key points:-

- That the 21st Century Schools programme is considered separately from the remainder of the general capital programme;
- That the replacement of existing and obsolete assets has the benefit of reducing revenue costs and that the capital programme will allocate funding to replace or improve existing I.T. equipment, vehicles and Council buildings;
- It is a statutory requirement to offer disabled facilities grants and that the capital programme will allocate funding annually to comply with this requirement;
- A sum will be allocated annually to fund road improvement works. The sum will depend on the amount required to achieve any minimum contract values, the level of external and internal funding available and an assessment of the state of repair of the Authority's roads;
- Projects that require match funding will be assessed on a case by case basis, with any decision to allocate funding being based on how the project fits into the Council's corporate priorities, any ongoing revenue implications and the ratio of Council funding to external funding;
- Projects funded from unsupported borrowing will only be undertaken if the reduction in revenue costs or increased income generated is sufficient to meet any additional capital financing costs.

2.4. The Capital Strategy also sets out how any new bid should be scored, as follows:-

- How closely the project will contribute to the priorities of the Corporate plan – score out of 20;
- Whether the project attracts significant external funding – score out of 10;
- Whether the project will lead to revenue savings – score out of 10;
- Whether the project will help mitigate a corporate risk – score out of 10.

3. FUNDING THE CAPITAL PROGRAMME 2021/22

3.1. The funds available to finance the capital programme for 2021/22 are shown in Table 1 below. It should be noted that the figure for the General Capital Grant and Supported Borrowing are based on the provisional Local Government settlement figures. The final figure will not be known until the final settlement figures are announced on 2 March 2021. The level of funding under both headings have remained fairly constant over a number of years and are not anticipated to change significantly between the provisional and final settlement.

Table 1
Anticipated Capital Funding Available for 2021/22

Source of Funding	£'m	£'m
General Fund Capital Programme		
Schemes/Funding brought forward from 2020/21	3.970	
General Capital Grant	2.163	
Supported Borrowing	2.158	
Capital Receipts	-	
Capital Reserve	-	
Leisure VAT Reserve	0.750	
External Grants and Contributions	0.030	
Funding for the General Capital Programme (Council Fund)		9.071
21st Century Schools		
Supported Borrowing	2.897	
Unsupported Borrowing	0.498	
Welsh Government Grant	3.205	
Funding for 21st Century Schools		6.600
Housing Revenue Account (HRA)		
HRA Reserve	6.079	
HRA - In-year Surplus	9.560	
Welsh Government Major Repairs Allowance	2.674	
Unsupported Borrowing	2.000	
Funding for HRA		20.313
Total Capital Funding 2021/22		35.984

3.2. The potential for any significant capital receipts is limited as the majority of any remaining assets which remain unsold have been already earmarked to fund existing or future capital projects (21st Century Schools, leisure improvements and smallholdings).

- 3.3.** In previous years, funding has been available from an earmarked reserve which was specifically set up to fund capital projects. Over the past few years, this reserve has been used as a source of funding, but the balance has fallen considerably and the remaining balance will be held to fund any emergency capital works which may arise during the year or to provide match funding if the offer of significant grant funding was received during the year which required a small amount of match funding.
- 3.4.** The HRA funding is earmarked for HRA projects only and cannot be used for any other projects. The plan allows for the use of £6.079m in 2021/22, leaving £1.5m as the ongoing reserve balance. This is in accordance with the HRA Business Plan which has been previously approved by the Council.

4. DRAFT CAPITAL PROGRAMME (Committed Schemes)

4.1. 2020/21 Schemes Carried Forward

The following schemes will not be completed in 2020/21 and will carry forward to 2021/22:-

**Table 2
2020/21 Schemes Brought Forward**

2020/21 Schemes Brought Forward	2021/22 £'000	2022/23 £'000	2023/24 £'000
Gateway Units	2,032	-	-
Tourism Gateway	1,290	170	-
Holyhead Landscape Partnership	210	190	-
Holyhead Regeneration (THI Phase II)	438	350	200
Total Schemes Brought Forward	3,970	710	200

4.1.1 Gateway Units – This is a European Regional Development Fund (ERDF) grant funded scheme to build new industrial units on the gateway site, with the project completing in December 2021.

4.1.2 Tourism Gateway – This is a grant funded scheme and no additional Council funding will be required in 2021/22.

4.1.3 Holyhead Landscape Partnership – This is a scheme fully funded by external grants and no Council funding will be required to complete the scheme.

4.1.4 Holyhead Regeneration (THI Phase II) - £75k match funding was secured in 2020/21 for this scheme, with the remaining being funded by grant. The scheme will now run to 2023/24 with no additional Council funding required to complete the scheme.

4.2. Refurbishing/Replacing Existing Assets

4.2.1 Each year, sums are allocated in the capital programme in order to maintain, upgrade or replace existing assets. The sums allocated have been reviewed by the Finance Team in consultation with the relevant service and the following sums are recommended for 2021/22:-

- **Disabled Facilities Grant (DFGs)** – In previous years, £750k has been allocated and this was supplemented in 2018/19 and 2019/20 by the use of Intermediate Care Fund grants. The Director of Social Services has indicated that the use of the Intermediate Care Fund grant to top up the core budget is possible in 2021/22 and, as such, a core budget of £500k will be sufficient in 2021/22, although it will be necessary to increase the core budget back to £750k in 2022/23.
- **Disabled Access in Education Buildings** - £300k has been allocated to meet the cost of these adaptations in previous years. Property Services have identified £978k required in 5 secondary schools and has programmed this work to take place over 3 years. As a result the allocation of £300k is recommended again for 2021/22 as this is the second year of the 3 year programme.
- **Refurbishment of Schools** – The backlog maintenance in schools is significant and cannot be funded in the short to medium term. Whilst some of this may be mitigated by the 21 Century school programme, some urgent works on buildings unaffected by this programme are still needed. The Property Services Team have identified the most urgent work to utilise the usual allocation of £1m. However, the sum that can be expended on schools ideally needs to be carried out over holiday periods to avoid health and safety risks and disruption. This means that some longer term projects need to be started now so they can be completed before serious risks arise. Secondary schools in particular are in a very poor condition and need substantial investment. However, some building issues are becoming critical and cannot wait for the 21 Century programme. Ideally, the Authority should be allocating approximately £2.5m annually.
- **Refurbishment of Non School Buildings** – Again, a backlog of work has been identified in the Council's offices, residential homes, day care facilities, libraries and leisure centres and there is insufficient funding to undertake this work in any one year. £600k has been allocated in previous year and this level of funding will be sufficient to meet the cost of the majority of the priority work required to be undertaken.
- **Highways Resurfacing** – Highways have assessed that the £1.250m allocation funded from the Council's core capital funding is sufficient for 2021/22, which is conditional upon the announcement in the provisional settlement that the Public Highways Refurbishment Grant will again be funded by Welsh Government at the same level as 2020/21. However, going forward, the Annual Status and Option Report confirms that an annual budget of £2m is required in order to sustain the Steady State (Preventative) condition of our roads. A budget below this required amount would inevitably result in less efficiency and reduced value for money with additional costs to the Highway Authority, with more money being spent on emergency works and also the risk of increased third party claims being made against the Authority. The Welsh Government Highways Refurbishment programme, which saw Welsh Government allocate £20m to assist Councils with highways refurbishment, ran from 2018-2021 and, as yet, no further funding to this effect has been announced.

- **Vehicles** – A sum of £150k has been allocated in previous years to allow for the replacement of obsolete vehicles and to purchase more fuel efficient vehicles e.g. electric cars. However, in addition to the routine replacement of vehicles, Môn Community Transport minibuses are reaching the end of their useful life and need to be replaced as the repair costs are increasing and there is an increasing risk that vehicles may not be available when they are needed. A programme of replacement has commenced and an additional £45k is required in 2021/22. In addition, a further £100k will be required in 2022/23 to recommence the upgrade of the fleet of gritters.
- **I.T. Assets** – Continued investment is required to maintain the Council's core infrastructure and the replace devices used by staff to access systems. £171k has been identified as a sum required to maintain the core infrastructure, with £121k required for desktop devices. In previous years, licensing costs were funded from capital funding but as the pressure on the revenue budget has eased slightly, these costs have been transferred to the revenue budget, which releases some capital funding.
- **I.T. Assets (Schools)** - In July 2019, Welsh Government announced significant grant funding of £50m for 2019/20 to transform Education Technology within Welsh State Schools well into the future. The funding will help equip schools with the infrastructure needed to meet Welsh Government digital standards. Welsh Government is expected to invest £30m in 2020/21 and £20m in 2021/22 and finally £10m in 2022/23. The majority of the funding for 2021/22 (90% approximately £0.270m for Anglesey) will be held by Welsh Government and local authorities will purchase equipment from a central source organised by Welsh Government. 10% (an estimated £30k for Anglesey) of the funding is provided to local authorities to support implementation of the programme. This funding is dependent on the Council's commitment to replacing the equipment at some point in the future when it reaches the end of its life. Further discussion will be required as part of future budgets as how best to create sufficient funding to fund the required investment when the equipment reaches the end of its useful life.

4.2.2 The recommended core funding allocations above are summarised in table 3 below:-

Table 3

Recommended Allocation of Funding for Refurbishment / Replacement of Existing Assets 2021/22 – 2023/24

Refurbishing / Replacing Existing Assets	2021/22 £'000	2022/23 £'000	2023/24 £'000
Disabled Facilities Grants	500	750	750
Disabled Access in Education Buildings	300	300	300
Refurbishment of Schools	1,000	2,500	2,500
Refurbishment of Non School Buildings	600	600	600
Highways	1,250	2,000	2,000
Vehicles	195	295	250
I.T Assets	292	292	292
I.T Assets Schools	30	15	-
Total	4,167	6,752	6,692

4.2.3 The General Capital Funding received from Welsh Government for 2021/22 totals £4.321m. There has been little increase in the general capital allocation received from Welsh Government for a number of years as additional capital funding has been directed to specific projects e.g. 21st Century Schools. If this level of funding continues in 2022/23 and beyond, the Council's capital programme will either be limited to the refurbishment and replacement of existing assets or the allocations shown above will have to be reduced in order to free up funding to meet other commitments.

5. OTHER BIDS FOR ADDITIONAL FUNDING

- 5.1.** Services were requested to put forward bids for capital funding. These bids were assessed by the Finance Team, using the scoring mechanism set out in the Capital Strategy and then prioritised by the Senior Leadership Team. Excluding the 21st Century Schools programme and the Housing Revenue Account, the general core funding available for 2021/22 totalled £4.321m, of which £4.167m is required for the above, leaving £0.184m to fund any new one off projects.
- 5.2.** Having scored the projects, and following the review by the Senior Leadership Team, the following projects are recommended to be included in the 2021/22 capital programme (see Table 4 below):-

Table 4

Recommended One off Capital Projects to be Funded in 2021/22

Project Title	Description	Sum Recommended £'000
Economic Development and environmental wellbeing projects	Match funding to be used as and when grant funding becomes available.	95
Chrome books for schools	To fund 1,672 chrome books for Secondary and Primary schools to ensure that children have access to chrome books, increase the ratio of chrome books for pupils and contribute to the wider scheme of the 2019-2023 boost.	305
Resurfacing play areas	Resurfacing two play areas at Holyhead High School.	300
Flood Relief Schemes	To provide match funding (15%) for small scale schemes and also to provide match funding (15%) for prioritised major schemes in order to draw down Welsh Government (WG) grant funding. WG grant would, therefore, total £2.295m.	405
TOTAL NEW BIDS FOR CAPITAL FUNDING IN 2021/22		1,105

- 5.3.** The bids set out in Table 4 exceed the available funds by £0.921m and as the projects do not generate any additional income or do not reduce revenue expenditure, then unsupported borrowing is not considered to be an option. This only leaves the use of the Council's general balances as the only remaining funding option.
- 5.4.** The Council's current balance of general reserves stands at £7.06m (as at 1 April 2020) and, with the 2020/21 revenue budget currently being forecast to underspend by £1m, there is the potential for the general reserve to increase to approximately £8m by the end of the 2020/21 financial year. The Council has set a target of 5% of the net revenue budget as the target for the minimum level of general balances and, based on the proposed revenue budget for 2021/22, this would equate to a minimum balance of around £7.0m.
- 5.5.** Should the general balances rise to £8m, there is the potential to use £1m of general balances to fund the additional capital expenditure in 2021/22. However, should the revenue budget position worsen over the second half of the financial year, the level of funding available may be less than £1m.
- 5.6.** Of the 4 schemes detailed in Table 4, the match funding for Economic Development projects and the purchase of chrome books for pupils are considered as priority schemes which need to be funded in full in 2021/22. If sufficient reserves are not available i.e. the level of reserves are lower than forecast, then the final two schemes can be scaled back as follows:-
- The resurfacing of the two play areas at Holyhead Secondary school can be scaled back with only one area completed in 2021/22. This will reduce the scheme cost by an estimated £100k.
 - The match funding for the flood relief schemes includes £225k as match funding to undertake a £1.5m flood relief scheme at Red Wharf Bay. Although not making the match funding available for this scheme would result in the loss of £1.275m in Welsh Government grant, the scheme is considered to be a lower priority scheme than the other major schemes at Valley and Menai Bridge which are included in the capital programme.
- 5.7.** The bidding process also identified a number of projects which do not require funding in 2021/22 but may need to be funded in 2022/23 or beyond. These include the following:-
- School ICT – In July 2019, Welsh Government announced significant grant funding of £50m for 2019/20 to transform Education Technology within Welsh State Schools well into the future. The funding will help equip schools with the hwb infrastructure needed to meet Welsh Government digital standards. Welsh Government is expected to invest £30m in 2020/21 and £20m in 2021/22 and finally, £10m in 2022/23. The majority of the funding for 2021/22 (90% approximately £0.270m for Anglesey) will be held by Welsh Government and local authorities will purchase equipment from a central source organised by Welsh Government. 10% (an estimated £30k for Anglesey) of the funding is provided to local authorities to support implementation of the programme. This funding is dependent on the Council's commitment to replacing the equipment at some point in the future when it reaches the end of its life. The easiest way to do this is to set aside capital funding each year to build up a reserve of funds that are available when required. A sum of £500k per annum over 4 years from 2021/22 would secure a £2m fund in four years' time.

- Flood mitigation on the B5109 at Fryars Bay. As no properties are at risk from the flooding in this area, the scheme does not attract grant funding from the Welsh Government under its current scheme. Should grant funding become available, the Council may need to consider releasing match funding in order to complete the mitigation works.
- The provision of learning disability day services is currently under review. The outcome of that review may recommend a capital investment in one or more centre in order to modernise the service. It is not clear at this point how much capital funding would be required, but it is likely to be a significant sum.
- The Council is currently producing a leisure improvement plan, designed to identify what will be required to maintain and improve the leisure facilities at the Council's 3 main leisure centres. Around £750k is held in a leisure specific reserve and the funding available could be increased through the sale of the golf course, if the Council reaches that conclusion. However, the funding requirement is considerably higher and will require additional external funding to implement.
- The current Anglesey Connected equipment is nearing the end of its useful life and, in order to maintain the connections to the establishments currently served by Anglesey Connected, the equipment will need to be replaced or the connections need to be transferred to PSBA. It is estimated that, over a 3 year period, £180k will be required to complete the transition. However, moving away from Anglesey Connected would allow the masts to be sold, which would generate a capital receipt.
- The Council has invested sums over recent years in modernising its business processes by investing in back office systems and implementing the Customer Relationship Management (CRM) system. The next step is to begin to develop automated response systems to deal with customer queries (ChatBots). Although the Council are not in a position to implement the technology at the present time, the need to invest in such technology was identified as a future capital bid.

6. 21ST CENTURY SCHOOLS

- 6.1.** Due to the significant amount of Welsh Government funding the schemes will attract and the need to modernise the existing school estate, the Council is committed to funding these schemes through the use of unsupported borrowing and the capital receipts from the sale of old school sites. The 2021/22 Capital Programme allows for the completion of the final Band A project and the commencement of Band B projects. It is for the Executive to decide what those projects will be and when they will be commenced.
- 6.2.** The estimated cost of the programme in 2021/22 is £6.600m (net of any capital receipts) which will be funded from £3.205m Welsh Government grant, £2.897m supported borrowing and £0.498m unsupported borrowing.

7. HOUSING REVENUE ACCOUNT

- 7.1.** The Housing Revenue Account is a ring fenced account in terms of both revenue and capital expenditure. The proposed programme for 2021/22 will see the continued investment in the existing stock to ensure continued compliance with the WHQS standards, with £9.555m being invested. A further £10.758m will be spent on developing new properties and in re-purchasing former right to buy properties.

7.2. The programme will be funded from: the HRA Reserve (£6.079m), the revenue surplus generated in 2021/22 (£9.560m), Welsh Government grants (£2.674m) and new unsupported borrowing (£2.000m).

8. SUMMARY RECOMMENDED CAPITAL PROGRAMME 2021/22

8.1. The recommended capital programme for 2021/22 is summarised in Table 5 below and analysed in further detail in Appendix 2:-

Table 5
Summary Recommended Capital Programme 2021/22

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2020/21 Schemes Brought Forward	Para 4.1 & Table 2	3,970
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