

Report of the Section 151 Officer

Special Cabinet – 10 February 2015

CAPITAL BUDGET & PROGRAMME 2014/15 – 2018/19

Purpose:	This report proposes a revised capital budget for 2014/15 and a capital budget for 2015/16 - 2018/19
Policy framework:	None
Reason for decision:	To agree a revised budget for 2014/15 and a budget for 2015/16 – 2018/19 to be presented to Council for approval
Consultation:	Cabinet Members & Executive Board
Recommendation:	1) The revised capital budget for 2014/15 and a capital budget for 2015/16 – 2018/19 as detailed in appendices A, B C, D, E and F is recommended to Council for approval.
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1. Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals in 2014/15
- Capital expenditure and financing proposals in 2015/16 – 2018/19

1.2 Capital spending and funding proposals in relation to the Housing Revenue Account (HRA) are detailed in a separate report to be considered.

1.3 The budget proposals are detailed in appendices to this report as follows:

Appendix A Summary of General Fund Capital Expenditure and Financing
2014/15 – 2018/19

Appendix B Schools Programme Capital Expenditure
and Financing 2014/15 – 2018/19

Appendix C Material changes to the original 2014/15 budget

Appendix D Material changes to the Capital Programme agreed in February 2014

Appendix E General Fund Capital Budget 2014/15 – 2018/19

Appendix F Education surplus land sites identified for sale

- 1.4 The key message arising from this report is that the overall programme deficit, encompassing both the General Fund Programme and Schools programme, amounts to some £57.038m over the lifetime of the programme.

Given the anticipated Revenue Budget contained within the Medium Term Financial Plan, it would not be prudent to assume any increase in borrowing to meet this shortfall, which should be met by:-

- Increased Capital receipts
- reduction in the planned Capital programme.

2. Capital Budget 2014/15

- 2.1 Spending in the current year will be £89.202m – an increase of £34.359m compared to the original estimate of £54.843m.

This increase is due to the following:

- the addition of grant funded schemes after Council approved the capital budget in February 2014.
- Revised forecast for Equal Pay claims resulting in an additional cost of £9m, to be funded by borrowing allowed by a capitalisation directive of £6.7 million and the balance of £2.3 million to be funded by capital receipts.
- The net balance of schemes carried over from 2013/14 into 2014/15 and schemes carried over from 2014/15 into 2015/16.

Material changes to the 2014/15 budget are summarised in Appendix C.

3. Capital Programme and Financing 2014/15 to 2017/18

- 3.1 The proposed programme and financing is set out below.

Paragraphs 3.2 to 3.7 detail the material changes to the General Fund Programme and Financing.

Paragraphs 3.8 to 3.12 detail the Schools Programme and Financing.

GENERAL FUND PROGRAMME AND FINANCING

- 3.2 The General Fund programme is summarised in Appendix A and detailed in appendix E. The attached proposals exclude the Housing Revenue Account capital budget which is detailed elsewhere on the agenda.

- 3.3 The Capital Budget report considered by Council on 18th February 2014 highlighted a forecast shortfall in the four year forward programme of £31.276m for the 21st Century Schools programme and £28.977m for the rest of the General Fund capital programme. The report contained the following in respect of both the general fund and Schools programme shortfalls:- *'If required, it will be necessary to finance the forecast shortfall in 2014/15 by temporary unsupported borrowing pending the identification of a funding solution in relation to the four year programme'*.

3.4 The updated General Fund programme is summarised in Appendix A. This highlights expenditure of £146.699m; financing of £120.545m and a forecast shortfall of **£26.154m**. Appendix D provides a reconciliation between the General Fund programme shortfall reported in February 2014 and the current proposals. The material changes are as follows:

Addition of a further year to the programme

3.5 The addition of a further year (i.e. 2018/19) causes a £2.946m increase in the funding shortfall. This is because recurring annual commitments are no longer offset by Welsh Government annual funding i.e.

	£m
Welsh Government funding 2018/19	10.224
<i>less 2018/19 spending requirements</i>	
Property and highways maintenance	-7.375
DFGs & Improvement Grants	-5.200
Annual Contingency Budget	-0.595
Additional shortfall 2018/19	2.946

It should be noted that the core capital budget identified above is itself in excess of the support available from Welsh Government (£10.224m). Given the annual repayment of principal as detailed in 3.8 below expenditure at this level would not increase overall levels of borrowing.

Forecast General Fund shortfall

3.6 The updated forecast shortfall of £26.154m. represents a decrease of £2.823m compared to the February 2014 position as detailed in appendix D. In order to address the shortfall Cabinet will need to consider the following options:-

- Identify and progress significant additional Capital receipts over and above those already identified.
- Reduce the expenditure contained within the Capital Programme primarily a reduction in proposed allocations as set out in 3.5
- Incur additional unsupported borrowing. This is a last resort given the known pressures on future revenue budgets within the Council and should only be considered on a temporary basis until such time as Capital Receipts are realised.

Whichever option(s) is pursued it is likely that there will have to be an increase in both temporary and overall overall borrowing limits in the short term.

3.7 It should be noted that, whilst annually the Council repays on average £14.25m in respect of Capital Debt, the potential increase in temporary borrowing levels, together with the requirement to externalise elements of debt currently funded internally, means that Capital Charges are likely to increase.

SCHOOLS PROGRAMME AND FINANCING

- 3.8 The Welsh Government announced its support in principle for an agreed programme of school building improvements in early 2012. This programme – termed the 21st Century Schools Programme - will entail the Welsh Government providing a 50% contribution in relation to schemes costing £51m. The Council is expected to provide the remaining 50% contribution.
- 3.9 Phase 1 schemes are progressing well and Phase 2 schemes are being developed. The schemes included in both phases of the programme are detailed in Appendix B and are summarised below:

	£m	£m
Phase 1 schemes	Original	Revised
Burlais Primary new school	7.500	8.250
Gowerton Primary new school	5.000	6.805
YGG Lon Las rebuild and remodel	5.000	8.033
Glyncollen Primary improvements	0.750	0.750
Newton Primary improvements	0.650	0.650
Post 16 provision	2.100	1.100
Total Phase 1 schemes	21.000	25.588

	£m	£m
Phase 2 schemes	Original	Revised
Pentrehafod remodelling		11.100
Gorseinon Primary new school		6.320
Pentre Graig Primary improvements		2.000
St Joseph's Primary improvements		1.010
YGG Gwyr improvements		1.000
Secondary Review		4.192
Special Schools Review		0.100
Total Phase 2 schemes		25.722

- 3.10 For completeness, the previously agreed Morryston Comprehensive School scheme and the second phase of the 21st Century Schools Programme are also detailed in Appendix B. This is necessary as the funding for the Morryston Scheme and the second phase needs to be considered in the context of the wider schools programme.
- 3.11 The financing of the schools programme and current shortfall of £30.884m is set out in Appendix B. As previously highlighted, the position remains extremely difficult and challenging and may be summarised as follows:
- a) The Welsh Government has provided a 70% grant contribution to the Morryston Comprehensive Refurbishment Scheme. As previously reported, this means that the Council must provide a £6.6m contribution – see (c) below.

- b) The Council is required to fund a 50% contribution to the 21st Century Schools Programme cost i.e. **£25.7m**.
- c) CCS has identified contributions of £1.4 million which will be used to fund the Schools programme.
- d) The implication of (a) (b) and (c) is that the Council is required to fund a contribution of £30.9m over the period to 2019. The assumption underpinning the financing of the Council's contribution to the programme has been that sufficient capital receipts would be obtained through disposal of land surplus to Schools requirements to meet the additional funding requirement and, indeed, all Business plans submitted to and agreed by Welsh Government assume CCS funding via Capital Receipts.
- e) The Capital Budget report considered by Council on 28th February 2011 highlighted potential parcels of land surplus to Educational requirements at a number of listed sites. Whilst progress has been made in agreeing several sales, only a small part of the then estimated £12m receipt has been received to date. To date this amounts to £990k with most of the receipts expected to be realised over the next three years. A full list of the sites is set out in Appendix F.
It is clearly important to optimise the capital receipts that can be realised from disposals through appropriate marketing and timing of any sales. It may therefore be appropriate to agree short term additional unsupported borrowing in order to generate a greater capital receipt at a later date when the market has improved. However, progress to date against projected targets is poor.

Given the scale of the potential funding deficit it is clear that a wider list of potential disposals of land surplus to Educational requirements is required to achieve the full funding for the 21st Century Programme.

- f) At this time, as stated above, it is assumed that the above funding requirement will be met by agreeing excess land sales. Failure to achieve this will require:
 - a revision of the agreed programme and / or
 - Subject to identifying a funding source to meet the resulting principal and interest payments, the agreement of further unsupported borrowing. Given the poor outlook for the Council's finances, it is inevitable that, under such circumstances, schools will have to fund the cost of unsupported borrowing if the programme is to progress as planned.
 - Re-allocation of other Capital receipts bearing in mind the need to meet the General Fund shortfall from the same source.
- g) The Welsh Government has confirmed that it will meet part of its 50% contribution by providing annual support for Council unsupported borrowing rather than grants. The proposed funding is detailed in Appendix B.

3.12 Notwithstanding the uncertainties regarding the funding of the overall Schools Programme, it is proposed that the above schemes detailed above be committed over the coming year. It should also be noted that many of these schemes are high priority due to the significant risks of building failure.

It is the case, however, that there is no commitment as yet to phase 2 of the programme.

If required, it will be necessary to finance the forecast schools programme shortfall in 2015/16 by temporary unsupported borrowing pending the identification of a funding solution in relation to the overall schools programme.

Equal Pay Capitalisation

- 3.13 As reported in the Revenue Budget 2015/16 reported separately on this agenda, a single pay and grading structure was introduced across the Authority with effect from 1st April 2014. The introduction of a single pay and grading scheme is welcome and in future years will add certainty to pay estimates. However, until the Authority has fully implemented the scheme, dealt with all outstanding equal pay claims and exhausted all appeals which may arise from implementation, single status/equal pay remains an ongoing risk outside of the significant challenges facing the delivery of savings targets during 2015/16. It is anticipated that the vast majority of outstanding equal pay claims will be subject to settlement by 31st March 2015. Whilst the Council had set aside significant sums to meet all known current liabilities, the final settlement in respect of equal pay claims has led directly to an increase in capitalised unsupported borrowing of £6.7m during 2014/15, together with the use of £2.3m of Capital Receipts.

4. Risks

- 4.1 There are significant risks which may require a future revision of the attached four year capital budget. In particular:
- urgent capital maintenance requirements
 - unforeseen costs e.g. failure of retaining walls
 - failing to achieve the General Fund capital receipts target and in relation to the Schools Programme, school land sale targets.
 - Capital financing charges arising from additional unsupported borrowing which can not be met from revenue budgets.
 - Additional costs arising from any other additions to the Capital programme.
- 4.2 There is a further significant risk that external grants will greatly diminish as cuts are applied by grant providers – in particular the Welsh Government and European Grants.
- 4.3 Whilst there is an annual Contingency Budget provided to deal with unexpected spending requirements this would be insufficient if a number of the risks detailed above were to arise.

5. Legal Implications

- 5.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

6. Prudential Code

- 6.1 Under the Local Government Act 2003 and subsequent regulations, a local authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when setting its budget and must determine and keep under review how much it can afford to borrow.

6.2 A further report on the agenda will detail what is required under the requirement of the Code and set out in detail Prudential Borrowing Indicators for 2014/15 and subsequent years.

7. Equalities Implications

There are no equalities implications contained within this report but individual projects will be subject to the EIA process where required.

Background Papers: None.

Appendices:

Appendix A Summary of General Fund Capital Expenditure and Financing
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