

## Report of the Section 151 Officer

Council – 25 February 2016

### CAPITAL BUDGET & PROGRAMME 2015/16 – 2019/20

<b>Purpose:</b>	This report proposes a revised capital budget for 2015/16 and a capital budget for 2016/17 - 2019/20
<b>Policy framework:</b>	None
<b>Reason for decision:</b>	To agree a revised capital budget for 2015/16 and a capital budget for 2016/17 – 2019/20
<b>Consultation:</b>	Cabinet Members & Executive Board
<b>Recommendation:</b>	The revised capital budget for 2015/16 and a capital budget for 2016/17 – 2019/20 as detailed in appendices A, B C, D, and E is approved.
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## 1. Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals in 2015/16
- Capital expenditure and financing proposals in 2016/17 – 2019/20

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  
2015/16 – 2019/20

Appendix B Schools Programme Capital Expenditure  
and Financing 2015/16 – 2019/20

Appendix C Material changes to the original 2015/16 budget

## Appendix D Reconciliation of Capital programme shortfall

## Appendix E General Fund Capital Budget 2015/16 – 2019/20

- 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 £30.085 million over the lifetime of the programme.

Additional capital receipts will continue to be reviewed and brought onto the programme but in the absence of such further receipts it must be assumed that additional borrowing will need to be taken out to fund the capital programme.

## 2. Capital Budget 2015/16

- 2.1 Spending in the current year is forecast to be £72.062m (GF £61.048 plus Schools programme £11.014m) – an increase of £28.16m compared with the original estimate of £43.902m.

This increase is due to the following:

- the addition of grant funded schemes after Council approved the capital budget in February 2015.
- The net balance of schemes carried over from 2014/15 into 2015/16 and schemes carried over from 2015/16 into 2016/17.

Material changes to the 2015/16 budget are summarised in Appendix C.

## 3. Capital Programme and Financing 2015/16 to 2019/20

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

Paragraphs 3.2 to 3.9 detail the General Fund Programme and Financing.

Paragraphs 3.10 to 3.13 detail the 21<sup>st</sup> Century 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 in a separate report.

The Capital Budget report considered by Council on 24th February 2015 highlighted a forecast shortfall in the four year forward programme of £57.038m made up of £30.884m for the 21<sup>st</sup> Century Schools programme and £26.154m 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:- In order to address the shortfall Cabinet will need to consider the following options:-

- Identify and progress further additional Capital receipts over and above those already incorporated in this budget,
- Reduce the expenditure contained within the Capital Programme primarily a reduction in proposed allocations as set out in 3.4,
- 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 borrowing limits in the short term.

Additional borrowing requirement was utilised to fund the 2014-15 Capital Spend.

- 3.3 The updated General Fund programme is summarised in Appendix A. This highlights expenditure of £136.826m; forecast financing of £128.771m and a forecast shortfall of £8.055m. Appendix D provides a reconciliation between the General Fund and 21<sup>st</sup> Century Schools programme shortfall reported in February 2015 and the current proposals. The material changes to the General Fund are as follows:

#### **Addition of a further year to the programme**

- 3.4 The addition of a further year (i.e. 2019/20) causes a £2.928m increase in the funding shortfall. This is because recurring annual commitments are no longer offset by Welsh Government annual funding i.e.

	<b>£m</b>
Welsh Government funding 2019/20	10.242
<i>less 2019/20 spending requirements</i>	
Property and highways maintenance	-7.375
DFGs & Improvement Grants	-5.200
Annual Contingency Budget	-0.595
<b><u>Additional shortfall 2019/20</u></b>	<b><u>2.928</u></b>

It should be noted that the core capital budget identified above is itself in excess of the support available from Welsh Government (£10.242m). Given the annual repayment of principal as detailed in 3.7 below expenditure at this level will not increase overall levels of borrowing.

- 3.5 The 2016-17 Capital budget incorporates capital investment in respect of:
- the Development phase of the City Centre sites (St David's and the Civic Centre site)
  - additional funding for Highways & Transport (funded by reserves)
  - schools' capital investment (outside the scope of the 21<sup>st</sup> Century Schools programme) to cover a backlog of urgent maintenance and health & safety requirements.
  - In respect of highways and transport and Schools Capital investment specific schemes will have to be brought forward and authorised in line with Financial Procedure Rules.

#### **Forecast Capital Funding Gap**

- 3.6 As at February 2016, the updated forecast GF funding shortfall for the capital programme 2015/16 – 2019/20 is £8.055m. (at Feb 2015 the projected forecast shortfall for 2014/15- 2018/19 was £26.154m). Appendix D to this report analyses the movement in the funding deficit as reported in February 2015 with the current deficit as now reported. The reduced shortfall is specifically accounted for by the need to undertake additional borrowing in respect of the 2014/15 Capital programme as detailed in appendix 'D'. This additional borrowing was undertaken in the absence of actual Capital receipts being received.

- 3.7 Current forecast capital receipts indicate a level of receipts of £9.623m in excess of the level predicted in February 2015. However it remains the case that in the absence of additional capital receipts or curtailing spend an implicit additional borrowing requirement on both GF and the Schools programme of £30.085m will be required over the life of the programme. Ultimately the Capital programme as set out is underpinned by a likely permanent borrowing requirement.
- 3.8 In order to address the funding gap Cabinet will need to consider the following options:-
- Continue to identify and progress further additional Capital receipts over and above those already incorporated in this budget,
  - Reduce the expenditure contained within the Capital Programme primarily a reduction in proposed allocations as set out in 3.4, this is not recommended given the growing backlog of capital maintenance issues,
  - Undertake additional prudential borrowing. This should be a carefully considered option given the known pressures on future revenue budgets within the Council.

Whichever option(s) is used it is likely that there will have to be an increase in overall borrowing requirements in the short term.

- 3.9 It should be noted that, whilst annually the Council makes an average annual provision to repay debt of £14.25m, the Council has not actually borrowed money from the markets in the interim period but has funded capital requirements by utilising internal resources. It is forecast that in line with good Treasury Management practice and being mindful of interest rate movements, it is likely that actual external borrowing shall increase in the medium term therefore increasing capital financing charges.

## **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 21<sup>st</sup> 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, with Burlais and Gowerton completed in 2015-16 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:

<b>Phase 1 Schemes</b>	<b>£m</b>	
Burlais Primary new school build	8.250	Completed
Gowerton Primary new school build	6.804	Completed
YGG Lon Las rebuild and remodel	9.797	Committed and Progressing
Glyncollen Primary improvements	0.750	Completed
Newton Primary improvements	0.650	Completed

<b>Total Phase 1 Schemes</b>	<b>26.251</b>
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<b>Phase 2 Schemes</b>	<b>£m</b>	
Pentrehafod remodelling	12.720	Outline Business Case approved by WG
Gorseinon Primary new school build	6.080	Full Business Case approved by WG
Pentre Graig Primary improvements	2.724	On Site
St Josephs Primary improvements	0.500	Uncommitted
YGG Gywr improvements	1.350	Business Justification submitted to WG Jan16
Secondary Review	1.425	Uncommitted
Special Schools Review	0.100	Uncommitted

<b>Total Phase 2 Schemes</b>	<b>24.899</b>
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- 3.10 For completeness, the previously agreed Morriston Comprehensive School scheme and the second phase of the 21<sup>st</sup> Century Schools Programme are also detailed in Appendix B. This is necessary as the funding for the Morriston Scheme and the second phase need to be considered in the context of the wider schools programme.
- 3.11 The cashflow projections currently approved by WG are reflected in Appendix B. However these are currently under review with the WG to reflect the potential impact on the Gorseinon scheme of the Village Green Application that has recently been received by the Council.
- 3.12 The financing of the schools programme and current shortfall of **£22.030m** is set out in Appendix B. As previously highlighted, the position remains extremely difficult and challenging and may be summarised as follows:
- The Welsh Government has provided a 70% grant contribution to the Morriston Comprehensive Refurbishment Scheme. As previously reported, this means that the Council provided a £6.6m contribution.
  - The Council is required to fund a 50% contribution to the 21<sup>st</sup> Century Schools Programme cost i.e. **£25.5m**.
  - CCS has identified confirmed contributions of £1.4 million to date which have been used to fund the Schools programme.
  - The implication of (a) (b) and (c) is that the Council is required to fund a contribution of **£30.625m** over the period to 2020.
  - As identified in 3.6, there is an ambitious programme of Council asset disposals which shall be used to support not only the 21<sup>st</sup> Century Schools programme but

the GF capital programme as a whole. If in the eventuality that inadequate capital receipts are realised, prudential borrowing would be considered to fund the shortfall.

- f) The Welsh Government has confirmed that it will meet part of its 50% contribution by providing annual support for Council supported borrowing rather than grants. The proposed funding is detailed in Appendix B.

3.13 Notwithstanding the uncertainties regarding the funding of the overall Schools Programme, it is proposed that the 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.

If required, it will be necessary to finance the forecast schools programme shortfall in 2015/16 by unsupported borrowing pending future capital receipts from the disposal programme.

## **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
- 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 2015/16 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.