

Report of the Section 151 Officer

Council – 23 February 2017

CAPITAL BUDGET & PROGRAMME 2016/17 – 2020/21

Purpose:	This report proposes a revised capital budget for 2016/17 and a capital budget for 2017/18 - 2020/21
Policy framework:	None
Reason for decision:	To agree a revised capital budget for 2016/17 and a capital budget for 2017/18 – 2020/21
Consultation:	Cabinet Members & Executive Board
Recommendation:	The revised capital budget for 2016/17 and a capital budget for 2017/18 – 2020/21 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 for 2016/17
- Capital expenditure and financing proposals for 2017/18 – 2020/21

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
2016/17 – 2020/21

Appendix B Schools Programme Capital Expenditure
and Financing 2016/17 – 2020/21

Appendix C Material changes to the original 2016/17 budget

Appendix D Reconciliation of Capital programme shortfall

Appendix E General Fund Capital Budget 2016/17 – 2020/21

- 1.4 The key message arising from this report is that the overall programme deficit, encompassing both the General Fund Programme and Schools programme, already amounts to some £57.733 million over the lifetime of the programme.

Capital receipts are a finite resource and 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 with the additional revenue implications

2. Capital Budget 2016/17

- 2.1 Spending in the current year is forecast to be £60.684m (GF £47.923m plus Schools programme £12.761 m) – an increase of £5.62m compared with the original estimate of £55.064m.

This increase is due to the following:

- the addition of grant funded schemes after Council approved the capital budget in February 2016.
- the addition of non-grant funded schemes
- the net balance of schemes carried over from 2015/16 into 2016/17 and schemes carried over from 2016/17 into 2017/18.

Material changes to the 2016/17 budget are summarised in Appendix C.

3. Capital Programme and Financing 2016/17 to 2020/21

- 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 3.15 detail the 21st 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 25th February 2016 highlighted a forecast funding shortfall in the four year forward programme of £30.085m made up of £22.03m for the 21st Century Schools programme and £8.055m for the rest of the General Fund capital programme. The February 2016 report contained the following narrative in respect of both the General Fund and Schools programme funding 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 programme expenditure of £138.147m; forecast financing of £99.041m and a forecast funding shortfall of £39.106m. Appendix D provides a reconciliation between the General Fund and 21st Century Schools programme shortfall reported in February 2016 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. 2020/21) creates 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.

	£m
Welsh Government funding 2020/21	10.238
<i>less 2020/21 spending requirements</i>	
Property and highways maintenance	-7.375
DFGs & Improvement Grants	-5.200
Annual Capital Contingency Budget	-0.591
<u>Additional shortfall 2020/21</u>	<u>2.928</u>

It should be noted that the core capital budget identified above is itself in excess of the support available from Welsh Government (£10.238m).

- 3.5 This Capital budget incorporates capital investment in respect of:
- £6.15 million for the Development phase of the City Centre sites (St David’s and the Civic Centre site)
 - additional £1 million of funding for Highways & Transport (funded by reserves)
 - additional £1 million for schools’ capital investment (outside the scope of the 21st Century Schools programme) to cover a backlog of urgent maintenance and health & safety requirements.
 - additional £800k of funding for 2 x 3G pitch expansion (£500k), conversion of Mansion House into a public access civic building (£200k) and lighting at Guildhall and other buildings (£100k)
 - £6.5 million for the proposed EOTAS accommodation scheme (this is a high level indicative estimate prior to the outcome of a feasibility study) and the actual cost and phasing will differ)
 - £10 million for Kingsway Infrastructure redevelopment (with funding to be confirmed)

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 2017, the updated forecast funding shortfall for the capital programme 2016/17 – 2020/21 is £57.733 million. (at Feb 2016 the projected forecast shortfall for 2015/16- 2019/20 was £30.085m). Appendix D to this report analyses the movement in the funding deficit as reported in February 2016 with the current deficit as now reported. The increased shortfall is specifically accounted for by the need to undertake additional borrowing in respect of the Capital programme as detailed in appendix 'D'. This additional borrowing will be required in the absence of sufficient Capital receipts being received.
- 3.7 It remains the case that in the absence of adequate capital receipts or curtailing spend an implicit additional borrowing requirement on both GF and the Schools programme of £57.733 million will be required over the life of the programme. Ultimately the Capital programme as set out is underpinned by a 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 requirement to fund the shortfall in the programme funding.

- 3.9 It should be noted that the Council makes an average annual budget provision to repay debt of approximately £14.9m (2016/17). The Council has taken advantage of the low interest rate and volatility in the market to externalise some of its borrowing requirement in year, though the overall strategy is to mitigate the impact of interest charges by utilising internal resources. It is forecast that in line with good Treasury Management practice and being mindful of interest rate movements and Cashflow requirements, it is certain that actual external borrowing shall increase in the short/medium term with the associated increase in interest payments.

SCHOOLS PROGRAMME AND FINANCING

- 3.10 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 – is funded by a 50% contribution from the Welsh Government and a 50% contribution from the Council towards a programme total of £51.31 million.
- 3.11 Phase 1 schemes are progressing well, with Burlais and Gowerton completed in 2015-16 and Phase 2 schemes are progressing. The schemes included in both phases of the programme are detailed in Appendix B and are summarised below:

C21st School Schemes (Band A)

Phase 1 Schemes	£'000	
Burlais Primary new school build	8,150	Completed
Gowerton Primary new school build	6,705	Completed
YGG Lon Las rebuild and remodel	9,796	Progressing to plan
Glyncollen Primary improvements	750	Completed
Newton Primary improvements	650	Completed
	<u>26,051</u>	
Phase 2 Schemes		
Pentrehafod remodelling	15,076	Commenced Nov16
Gorseinon Primary new school build	6,080	Full business approved by WG
Pentre Graig Primary improvements	2,724	Completed
YGG Gywr improvements	1,350	Progressing to plan
Secondary review	79	Uncommitted
Special Schools review	100	Work commissioned to draw down funding
	<u>25,409</u>	
Total Phase 1 and 2 (includes £150k Challenge Cymru)	51,460	

- 3.12 For completeness, the previously agreed Morriston Comprehensive School scheme is 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.
- 3.13 The cashflow projections currently approved by WG are reflected in Appendix B. The cashflow projections will continue to be reviewed with WG to consider the potential impact on the Gorseinon scheme of the Village Green Application.
- 3.14 The financing of the schools programme and current shortfall of **£18.627m** 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 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 21st Century Schools Programme cost i.e. **£25.655m**.
 - CCS has identified confirmed contributions of £1.4 million to date which have already been used to fund the Schools programme. Further contributions have been provisionally identified and will be utilised to help fund part of the future programme once both fully agreed and actually received.
 - The implication of (a) (b) and (c) is that the Council is required to fund a contribution of **£31.030m** over the period to 2020.

- e) There is an ambitious programme of Council asset disposals which will be used to support not only the 21st Century Schools programme but the GF capital programme as a whole. If in the eventuality that inadequate capital receipts are realised, prudential borrowing will be considered to fund the shortfall.
- f) The Welsh Government has confirmed that it will meet part of its 50% contribution by providing annual revenue support for Council supported borrowing rather than grants. The proposed funding is detailed in Appendix B.

If required, it will be necessary to finance the forecast schools programme shortfall in 2017/18 by unsupported borrowing pending future capital receipts from the disposal programme.

- 3.15 It is anticipated that Band B of the 21st Century Schools Programme will be delivered from April 2019 and run to March 2024. Welsh Government have commenced the planning work for this and sought information from local authorities about the scale and broad make up of their emerging investment priorities. This will inform the Welsh Government's own case for future capital investment in schools. As yet guidance is still to be provided on the grant intervention rate and criteria for Band B and until this is clarified it is not possible to judge the potential scale of future investment that might be 'affordable' for local authorities. Over the coming months the detail of the future programme will be developed as clarification is received from the Welsh Government and this will allow greater engagement with schools and their governing bodies to help shape the direction of travel.

4. Impact of proposed Developments and Schemes

- 4.1 The Capital programme as outlined in this report reflects known planned expenditure and financing as at the date of the report.
- 4.2 It is clear, however, that there are significant potential developments which are currently being developed which may have a significant effect on the Council's proposals for Capital Expenditure during the period covered by this report but which have not been included for a number of reasons including:-

- Schemes which are currently in the 'bid' stage where approval is required in terms of overall scheme approval, the overall level of expenditure within each scheme and the projected level of CCS contribution.

Such bids would encompass the current City Deal bid and the initial bids in respect of Band B of the 21st Century Schools programme.

- Schemes which are being developed outside of formal bid processes but where the current level of development is insufficient to estimate potential levels of CCS contributions and the nature and timing of funding requirements.

Such schemes would include the potential for the development of the majority of the St. David's site and the potential relocation and development of the Civic Centre site.

- 4.3 By their very nature and scale these schemes have the potential to radically change the scope of the Council's capital programme over the period covered by this report and, as such, any elements of expenditure relating to these schemes that fall to be

incurred during 2017/18 will have to be the subject of a separate report under Financial Procedure Rule 7 (FPR 7) for inclusion in the Capital Programme as necessary.

- 4.4 The Capital programme is updated and approved on an annual basis as part of the formal budget round and to the extent that firm proposals around expenditure and funding are developed they will need to be included in subsequent annual reports even though they will inevitably relate to the time period that the current report covers.
- 4.5 The clear strategy for the Council should be to maximize external investment in any proposals and to seek to target its own investment into areas which offer a return commensurate with or greater than financing costs in order to minimise the Revenue impact of any additional borrowing requirements. In the absence of such a strategy then it has to be realised that any capital expenditure that leads to an overall net increase in borrowing costs brings with it the potential to impact on an already challenging revenue budget scenario going forward.

5. Risks

- 5.1 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 cannot be met from existing revenue budgets.
 - Additional costs arising from any other additions to the Capital programme.
- 5.2 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.
- 5.3 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.

6. Legal Implications

- 6.1 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.

7. Prudential Code

- 7.1 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.
- 7.2 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 2017/18 and subsequent years.

8. 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:
Appendices A - E