



## Report of the Section 151 Officer

Cabinet – 15 February 2018

### Capital Budget & Programme 2017/18- 2023/24

<b>Purpose:</b>	This report proposes a revised capital budget for 2017/18 and a capital budget for 2018/19 - 2021/22 (2023/24 for Band B schools).
<b>Policy framework:</b>	None.
<b>Consultation:</b>	Cabinet Members, Corporate Management Team (CMT), Legal, Finance and Access to Services.
<b>Recommendation:</b>	It is recommended that the revised capital budget for 2017/18 and a capital budget for 2018/19 – 2023/24 as detailed in appendices A, B C, D, E and F is approved.
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#### 1 Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals for 2017/18
- Capital expenditure and financing proposals for 2018/19 – 2021/22
- Extended to 2023/24 in relation to Band B schools (to fit Welsh Government timeframes)

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 2017/18 – 2023/24

Appendix B C21st Schools Programme Band A Capital Expenditure and Financing 2017/18 – 2018/19

Appendix C C21st Schools Programme Band B Capital Expenditure and Financing 2017/18 – 2023/24

Appendix D Material changes to the original 2017/18 budget

Appendix E General Fund Capital Budget 2017/18 – 2021/22

Appendix F Total General Fund Capital Budget (including C21st Schools)

- 1.4 The pre-existing capital programme requires significant supported borrowing of £43.713m over its lifetime to enable completion.
- 1.5 The schedule outlined in Appendix D outlines the material changes to the 2017/18 approved capital programme.
- 1.6 Appendices B, C and E outline an ambitious programme of capital investment including:
  - a significant continuing programme of IT investment across CCS
  - the continued investment in Swansea Schools, including the completion of Band A Schools and implementing over several further years the Band B phase of the 21<sup>st</sup> Century Schools Programme
- 1.7 The additional capital investment identified above will attract significant grant funding ( 21<sup>st</sup> Century Schools and Swansea City Region Deal), however the programme will still require a material unsupported borrowing to enable completion alongside the use of capital receipts as they are realised. Furthermore some schemes have the potential to provide additional revenue streams of property income, or, subject to agreement, in due course, with Welsh Government, retained elements of non-domestic rates or possibly tax increment financing as further powers devolve to Welsh Government and then on to local government.
- 1.8 Notwithstanding this scale of ambition, each major scheme will, as is always the case, be considered on the overall merits of each business case, both in capital cost, and revenue income streams where appropriate, and unsupported borrowing will be undertaken on a phased basis within the overall envelope for affordability which is considered over the medium to long term to be up to £200m.
- 1.9 Furthermore it has to be recognised that the scale of funding proposed to be injected by this Council, leverages in significant additional sums:
  - over £90m of Welsh Government funding for Band B schools
  - a City Deal, worth, across the region, around £1.3 billion.
- 1.10 The Swansea City & Waterfront Digital District project is one of eleven projects comprising the wider City Deal. It has been developed by the Council, in partnership with University of Wales Trinity Saint David (UWTSD). The core aim of the project is to create a strong and vibrant digital city that will be the economic engine of the wider city region. There are 3 main components: a Box Village and Innovation Precinct project (led by UWTSD); a Digital Village, which includes 100,000 sq. ft. of flexible and affordable office accommodation for tech businesses (led by the Council); and a Digital Square and Arena which will deliver a 3,500 seat Digital Arena and associated developments (also led by the Council). A 5 case business model has been prepared which describes the project in great detail,

including the benefits, costs, and income derived. This information has been submitted to UK and Welsh Governments for their consideration. The Digital Square forms part of the Swansea Central redevelopment with Outline Planning Consent granted last year. An Arena operator has been procured with legal documentation to be signed on 2<sup>nd</sup> February 2018. A two stage contractor procurement exercise has also commenced with selection of a successful contractor for stage 1 programmed for May 2018. Following approval this will allow the Council to work with them then to firm up the final cost of the scheme, and subject to final authorisation and contracts, to start on site before the end of this year. With regard to Digital Village, Council officers are currently analysing bids for appointing a consultant team to review the outline design of the Tech Industries Employment Hub building, progress to RIBA Stage 4 and deliver the project to practical completion.

## **2 Capital Budget 2017/18-2023/24**

- 2.1 Spending in the current year is forecast to be £61.284 m (GF £52.046m plus Schools programme £9.238m) – an increase of £11.012 m (see Appendix D) compared with the original estimate of £50.272 m.

This increase is due to the following:

- the addition of grant funded and non-grant funded schemes after Council approved the capital budget in February 2017, together with increases in the cost of schemes following detailed design and planning.
- the net balance of schemes carried over from 2016/17 into 2017/18 and schemes carried over from 2017/18 into 2018/19.

- 2.2 The proposed capital programme 2017/18 – 2023/24 and associated financing is set out below in 2.3 for The General Fund Programme and 2.4 for The 21<sup>st</sup> Century Schools Programme :

### **2.3 The General Fund Programme and Financing 2017/18 -2021/22**

2.3.1 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.

2.3.2 The Capital Budget report considered by Council on 23<sup>rd</sup> February 2017 outlined an unsupported borrowing requirement in the four year forward programme of £37.899 m made up of £12.98 m for the 21<sup>st</sup> Century Schools programme and £24.919 m for the rest of the General Fund capital programme.

2.3.3 The updated General Fund programme is summarised in Appendix A, B and C, in addition, Appendix F summarises the total General Fund programme including C21<sup>st</sup> Schools. This highlights a 4 year forward programme expenditure of £318.283m (Appendix F), including Band B Schools to 2023/24; identifying an unsupported borrowing requirement of potentially £98.252m (Appendix A). This reflects a significant increase in the unsupported borrowing requirement of the capital programme. The capital planning envelope for unsupported borrowing requires significant revenue funding to service the finance and this is set out in both the reports on the revenue budget and the medium term financial plan.

2.3.4 Phased, considered affordable borrowing, within the overall planning envelope will develop over the next 5-7 years and, in the case of the

funding, from the City Deal, the next 15 years. The major schemes added to the General Fund Capital Programme are as follows:

- 2.3.5
- Agile and Mobile IT equipment £10.4m
  - City Centre schemes ( Hafod HLF, indoor market & castle Sq) £2.5m
  - Highways £1.4m additional funding per annum

2.3.6 As outlined above, the material additions in this year's GF capital programme do not include the proposed Swansea Central City Centre Development – Swansea Central and the projects associated with the Swansea City Region Deal. As the schemes develop and budgets are firmed up, the required corporate governance requirements shall be observed with the submission of individual FPR7 reports.

2.3.7 Although there is significant accompanying grant funding and City Region Deal funding for these schemes, there is still a substantial unsupported borrowing requirement to underwrite these schemes.

2.4 Schools Programme and Financing 2017/18 -2023/24

2.4.1 The Welsh Government announced its support for an agreed programme of school building improvements in early 2012. This programme – termed the 21<sup>st</sup> Century Schools Programme – is funded by a 50% contribution from the Welsh Government and a 50% contribution from the Council towards a programme Band A total of £51.46m (£51.31m C21st programme plus £150k Challenge Cymru funding). The initial 2 phases, phase 1 and phase 2 of Band A projects are in progress or complete.

<b>C21st School Schemes (Band A)</b>		
<b>Phase 1 Schemes</b>	£'000	
Burlais Primary new school build	8,035	Completed
Gowerton Primary new school build	6,706	Completed
YGG Lon Las rebuild and remodel	9,844	Completed
Glyncollen Primary improvements	750	Completed
Newton Primary improvements	650	Completed
	<u>25,985</u>	
<b>Phase 2 Schemes</b>		
Pentrehafod remodelling	15,076	Progressing to plan Full business case approved by WG
Gorseinon Primary new school build	6,450	Completed
Pentre Graig Primary improvements	2,724	Completed
YGG Gywr improvements	1,205	Completed
Special Schools review	20	Uncommitted
	<u>25,475</u>	
<b>Total Phase 1 and 2 (includes £150k Challenge Cymru)</b>	51,460	

2.4.2 The total estimated cost of the Band B programme envelope is £141.7m (excluding the potential aided sector project which is assumed to require no Council contribution). Of this total, £91m is from traditional capital funding, requiring (after allowance for realisable capital and other receipts) a net local funding requirement of £38m. The remaining £50m is proposed to be delivered through revenue funding (Mutual Investment Model), which would require no local capital funding contribution but incur an annual charge once the accommodation and facilities are completed. An equivalent local share of the capital cost would be £12.6m although the 25% local contribution would apply to the annual revenue charge

## 2.5 Financing the Capital Programme

2.5.1 The financing for the General Fund capital programme identified in 2.3 and 2.4 is detailed in Appendix A and requires unsupported borrowing of £98.252m towards forecast expenditure of £318.283m (Appendix F).

2.5.2 It should be noted that efforts to increase and maximize grants, contributions and capital receipts in order to minimize borrowing requirements are pursued throughout the year. Included within the programme are a number of schemes which are self-financing. Indeed there should be a clear strategy for the Council 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.

2.5.3 It is recognized that a forecast capital financing requirement of £98.252m is significant. The revenue implications of this are identified in the revenue budget and medium term financial plan on this agenda. The above programme is affordable and sustainable throughout the lifetime of the medium term financial plan subject to the risks highlighted below.

2.5.4 It should be noted that the Council makes an average annual budget provision to repay debt of approximately £14.1m (2016/17) in line with its existing Minimum Revenue Provision (MRP) Policy. The MRP policy shall be reviewed in 2018/19. 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. However, noting the significant capital financing required, 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.

## **3 Future Schemes**

3.1 The Capital programme as outlined in this report reflects known planned expenditure and financing as at the date of the report.

3.2 Future discretionary projects and schemes shall only be incorporated if they are self-financing or the associated financing costs can be supported from the revenue budget affordably and sustainably.

## **4 Risks**

4.1 There are significant risks which may require a future revision of the attached six 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
- increased borrowing costs

Mitigation in respect of the latter four risks will be achieved by continual review and consideration of individual business cases for the larger schemes.

## **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 2018/19 and subsequent years.

## **7 Equalities Implications**

7.1 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 2017/18 – 2023/24
Appendix B	C21st Schools Programme Band A Capital Expenditure and Financing 2017/18 – 2018/19
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Appendix D	Material changes to the original 2017/18 budget
Appendix E	General Fund Capital Budget 2017/18 – 2021/22
Appendix F	Total General Fund Capital Budget (including C21st Schools)