



Report of the Section 151 Officer

Cabinet - 14 February 2019

Capital Budget & Programme 2018/19- 2023/25

Purpose:	This report proposes a revised capital budget for 2018/19 and a capital budget for 2019/20 - 2022/23 (2023/25 for Band B schools)
Policy framework:	None
Consultation:	Cabinet Members, Corporate Management Team (CMT), Legal, Finance and Access to Services
Recommendation:	It is recommended that: 1) The revised capital budget for 2018/19 and a capital budget for 2019/20 – 2023/25 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 2018/19
- Capital expenditure and financing proposals for 2019/20 – 2022/23
- Extended to 2023/25 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 2018/19 – 2023/25

Appendix B C21st Schools Programme Band A Capital Expenditure and Financing 2018/19 – 2020/21

- Appendix C C21st Schools Programme Band B Capital Expenditure and Financing 2018/19 – 2024/25
- Appendix D Material changes to the original 2018/19 budget
- Appendix E General Fund Capital Budget 2018/19 – 2022/23
- Appendix F Total General Fund Capital Budget (including C21st Schools)

- 1.4 Appendices B, C and E outline a comprehensive programme of capital investment including:
- a significant continuing programme of IT investment across CCS
 - the continued investment in Swansea Schools, including the near completion of Band A Schools with the exception of the new build for Gorseinon Primary School and implementing over several further years the Band B phase of the 21st Century Schools Programme
 - enabling works for Swansea Bay City Deal schemes
- 1.5 The additional capital investment identified above will attract significant grant funding (21st Century Schools and Swansea Bay City 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.
- 1.6 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 £180m.
- 1.7 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.
- 1.8 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 Reserved Matters Planning Consent for phase 1 granted in October 2018. An Arena operator has been procured. A two stage contractor procurement exercise has also been completed with selection of a successful contractor for Phase 1. The Council will enter into a PCSA with the Contractor to commence early enabling work and tender design packages to provide the final cost of the scheme, An FPR7 report will be presented to Cabinet in 2nd Qtr 2019 and subject to final authorisation and

contracts, to start on site with main contract works shortly afterwards. 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 2018/19-2023/25

- 2.1 Spending in the current year is forecast to be £74.129m (GF £65.851m plus Schools programme £8.278m) – an increase of £25.32m (see Appendix D) compared with the original estimate of £48.809 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 2018, together with increases in the cost of schemes following detailed design and planning.
- the net balance of schemes carried over from 2017/18 into 2018/19 and schemes carried over from 2018/19 into 2019/20.

- 2.2 The proposed capital programme 2018/19 – 2023/25 and associated financing is set out below in 2.3 for The General Fund Programme and 2.4 for The 21st Century Schools Programme :

2.3 The General Fund Programme and Financing 2018/19 -2022/23

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 23rd February 2018 outlined an unsupported borrowing requirement in the four year forward programme of £98.252m made up of £51.464m for the 21st Century Schools programme and £46.788m 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 C21st Schools. This highlights a 4 year forward programme expenditure of £360.855m (Appendix F), including Band B Schools to 2024/25; identifying an unsupported borrowing requirement of £104.494m (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
- Property Investment Portfolio £7.3m
 - Swansea Central, additional phased development £6.4m

2.3.6 As outlined above, the material additions in this year's GF capital programme do not include the full development cost for the proposed Swansea Central City Centre Development – Swansea Central and the projects associated with the Swansea Bay City Deal. The Council will enter into a PCSA with the Contractor to commence early enabling work and tender design packages to provide the final cost of the scheme, An FPR7 report will then be presented to Cabinet in 2nd Qtr 2019 and subject to final authorisation and contracts, to start on site with main contract works shortly afterwards

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

2.4 Schools Programme and Financing 2018/19 -2024/25

2.4.1 The Welsh Government implemented funding for its agreed programme of school building improvements in early 2012. This programme – termed the 21st Century Schools Programme – was 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 now largely complete with the exception of the new build for Gorseinon Primary School.

C21st School Schemes (Band A)		
Phase 1 Schemes	£'000	
Burlais Primary new school build	7,995	Completed
Gowerton Primary new school build	6,640	Completed
YGG Lon Las rebuild and remodel	9,841	Completed
Glyncollen Primary improvements	750	Completed
Newton Primary improvements	650	Completed
	<u>25,876</u>	
Phase 2 Schemes		
Pentrehafod remodelling	15,076	Completed other than external works
Gorseinon Primary new school build	6,642	Full business case approved by WG (revised FPR7 and change request to SOP due)
Pentre Graig Primary improvements	2,685	Completed
YGG Gywr improvements	1,180	Completed
Special Schools review		Uncommitted
	<u>25,583</u>	
Total Phase 1 and 2 (includes £150k Challenge Cymru)	51,460	

2.4.2 Welsh Government approved the Council's Strategic Outline Programme (SOP) for Band B in December 2017; the funding for Band B of the 21st Century Schools Programme is being provided through £600m capital and £500m revenue funding for the whole of Wales. It was announced by Welsh Government on the 21 November 2018, that for Band B the grant rate for capital projects will be increased to 65%. (The intervention rate for special schools and PRUs will be increased to 75%). However the programme envelope remains the same.

The approval in principle of the SOP for Band B does not commit the council to the funding contributions until the final approval of any capital allocation from the Welsh Government which is subject to the submission of further detailed business cases in respect of each specific project, and specific approvals in accordance with Financial Procedure Rules.

2.4.3 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 £23.885m. 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.

There are risks around the potential delivery of some of the schemes through the MIM model most notably the Special School; discussions are ongoing with Welsh Government to resolve this.

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 £104.494m towards forecast expenditure of £360.855m (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 is 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 £104.494m 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 annual budget provision to

repay debt through what is known as the Minimum Revenue Provision (MRP). The MRP policy was revised and approved by Council on Dec 20th 2018. 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 as far as possible. 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 be averaged in the short/medium term, as the capital programme develops with the associated increase in interest payments.

2.5.3 Noting the programmed profile of grant payments in respect of The Swansea Bay City Deal Financing, it has been determined prudent to establish a Capital Equalisation Reserve, with which to mitigate and smooth the timing differences between funding and capital spend during the early years of the programme.

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
- failing to deliver revenue budget savings as identified in the Revenue Budget Report
- 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 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above. An equality impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report. All future programs and schemes covered within this report will be subject to their own Equality Impact Assessment process.

Background Papers: Equality Impact Assessment Screening Form

Appendices: Appendices A-F