

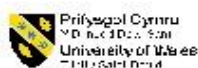


Report of the Director of Corporate Services (Carmarthenshire Council) & Section 151 Officer (SBCR)

Swansea Bay City Region Joint Committee – 29 October 2019

Cash Flow and Grant Profile Summary

Purpose:	The purpose of this report is to inform Joint Committee of the recommendations submitted by the Programme Section 151 Officer, in respect of programme cash surpluses, programme lending and support for the delivery of the PDM project.
Policy Framework:	Swansea Bay City Deal.
Consultation:	Accountable Body, Programme Board.
Recommendation(s):	It is recommended that: <ol style="list-style-type: none"> 1) The Joint Committee review the scenario analysis undertaken, evaluating the financial support that can be provided to Pembrokeshire County Council in delivering the PDM project; 2) The Joint Committee consider the recommendations put forward by the Programme Section 151 Officer (in consultation with Regional Section 151 Officer's), to support Lead Authorities with financial pressures borne in delivering projects within the Programme.
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Finance Officer:	Chris Moore, Section 151 Officer, SBCD
Legal Officer:	Tracey Meredith, Monitoring Officer, SBCD
Access to Services Officer:	N / A



Introduction

This report outlines the cash flow and grant profiling analysis undertaken, defining the different modelling and assumptions adopted within the scenarios demonstrated. Detailed within are the assumptions used in compiling the analysis undertaken and explanation in respect of the varying models presented.

1. Cash Flow Analysis

- 1.1 Base Funding Agreement - Fifteen Year Grant Profile (as per JCA)
- 1.2 The funding profile is based on the current agreement in place as per the terms of the JCA, releasing funding to the projects proportionately over a 15 year term. The grant receipt profile has been adjusted following discussions with Welsh Government to reflect their intended profile which is based on front loading grant in the first two years, with the balance over the remaining 13 years (£18m year 1 and 2, and £15.5m thereafter). The funding profiles have been amended to align to this adjusted grant receipt profile.
- 1.3 The LS and WB Campus project (lead by the City and County of Swansea) is profiled to incur the majority of expenditure in the latter years of the programme term, this directly concludes in a consistent surplus balance of £3m projected throughout the programme's 15 year duration.
- 1.4 Desirable Grant Profile
- 1.5 The funding profile for this model is based on the current agreement in place as per the terms of the JCA as noted above (1.1. Base Funding Agreement - Fifteen Year Grant Profile).
- 1.6 Local Authorities were asked to submit a desired funding profile to review of the impact on the programme's cash flow forecast. Due to the majority of projects incurring the expenditure within the first seven years of the programme term, the desired funding profile is heavily unbalanced, weighted towards the early years of the programme term.
- 1.7 With the grant receipted as per the base agreement over a 15 year profile, this scenario concludes in a programme deficit at its peak of £116m in year 6, which will require financing through borrowing.
- 1.8 Fifteen Year Grant Profile, with PDM Financed Over 5 Years
- 1.9 This model is based on the original funding agreement as outlined above (1.1. Base Funding Agreement - Fifteen Year Grant Profile), with only one amendment in respect of the PDM project. All projects are aligned over a fifteen year funding profile, with the exception of the PDM project which is demonstrated over a reduced funding profile of five years.

- 1.10 Treating PDM as a special case, through fully funding the project over this reduced period of five years, financial strain is placed on the programme, resulting in a consistent deficit position, which at its peak concludes in a £13m shortfall in year 6.
- 1.11 Fifteen Year Grant Profile, with PDM's Grant Leveraged
- 1.12 This model is based on the original funding agreement as outlined above (1. Base Funding Agreement - Fifteen Year Grant Profile), with only one amendment in respect of the PDM project. All projects are aligned over a fifteen year funding profile, with the exception of the PDM project which is front loaded, financing £11m to year 4, with the remaining grant balance funded equally over the remaining 11 year term.
- 1.13 Due to the LS and WB Campus projects spend profile heavily concentrated in the latter years of the programme, a surplus balance is consistently projected throughout the term of the programme. This balance along with the accrued income from the delay in receipt of Government grants can absorb this arrangement.
- 1.14 Treating PDM as a special case, leveraging funds over 4 years, the programme slips in to a very minor deficit which can be managed naturally as projects drift.
- 1.15 Through adopting this model, inequality within the programme is recognised, with all other projects aligned to the original base agreement terms, borrowing and incurring interest charges as projects demand. Furthermore it eradicates any potential income that could derive from investment opportunities of programme balances.

2. Grant Profile Analysis

- 2.1 Seven Year Grant Receipt Profile
- 2.2 The funding profile is based on the provided expenditure profiles with the grant receipt profile being adjusted to reflect grant receipted over seven years. The grant receipt profile has been adjusted following discussions with Welsh Government to reflect their intended profile which is based on front loading grant in the first two years, with the full balance then demonstrated as being equally receipted over the remaining 5 years (£18m in year 1 and 2, and £40m thereafter).
- 2.3 This grant receipt profile would require both Governments to increase their annual grant award by £25m per annum over a 5 year period. If this profile was accepted, distributing the grant based on the expenditure profiles would result in a programme deficit, with year 4 being the highest point of £48m.

2.4 Ten Year Grant Receipt Profile

2.5 The funding profile is based on the provided expenditure profiles with the grant receipt profile being adjusted to reflect grant received over ten years. The grant receipt profile has been adjusted following discussions with Welsh Government to reflect their intended profile which is based on front loading grant in the first two years, with the full balance then demonstrated as being equally received over the remaining 8 years (£18m in year 1 and 2, and £25m thereafter).

2.6 This grant receipt profile would require both Governments to increase their annual grant award by £10m per annum over an 8 year period. If this profile was accepted, distributing the grant based on the expenditure profiles would still result in a programme deficit, with year 5 being the highest point of £90m.

3. Assumptions

3.1 Cashflow Assumptions

- i) All the returns received demonstrated expenditure matching the full grant amount, these have been adjusted by a 1.5% reduction to reflect the 'top slice' required to fund the Programme Management Office.
- ii) Desirable Grant Profile includes the PDM project at full grant. Currently Pembrokeshire County Council are reviewing the affordability of the 1.5% top slice on the project. All other scenarios have been adjusted down to account for the top slice element.
- iii) The grant funding profiles have been aligned with spend incurrence.
- iv) It is assumed that business cases in respect of Phase 1 and 2 will be approved within this financial year (2019/20), with Phase 3 assuming approval in the next financial year (2020/21).
- v) The Life Science & Well Being Campus project expenditure profile is over 15 years, all scenarios have been matched to this timescale.
- vi) Neath Port Talbot CBC's revised projects demonstrate City Deal grant of £51m which is less than the original business case (and HoT) of £53m. The additional £2m has been included within the Swansea Bay Technology Centre project funding profile to ensure it is allocated to NPT and included within the programme.

3.2 Grant Profile Assumptions

- i) Both Grant Profiles have been based on a funding profile reflecting the expenditure profiles provided.

- ii) All the returns received demonstrated expenditure matching the full grant amount, these have been adjusted by a 1.5% reduction to reflect the 'top slice' required to fund the Programme Management Office.
- iii) The grant funding profiles have been aligned with spend incurrence.
- iv) It is assumed that business cases in respect of Phase 1 and 2 will be approved within this financial year (2019/20), with Phase 3 assuming approval in the next financial year (2020/21).
- v) The Life Science & Well Being Campus project expenditure profile is over 15 years, all scenarios have been matched to this timescale.
- vi) Neath Port Talbot CBC's revised projects demonstrate City Deal grant of £51m which is less than the original business case (and HoT) of £53m. The additional £2m has been included within the Swansea Bay Technology Centre project funding profile to ensure it is allocated to NPT and included within the programme.

3.3 Assumed Project Business Case Approval Period

Lead Authority	Project	Assumed BC Approval (Financial Year)
Phase 1		
City and County of Swansea	Swansea District & Waterfront Digital District	2019/20
Carmarthenshire County Council	Yr Egin	2019/20
Phase 2		
Neath Port Talbot County Borough Council	Swansea Bay Technology Centre	2019/20
Neath Port Talbot County Borough Council	National Steel Innovation Centre	2019/20
Neath Port Talbot County Borough Council	Decarbonisation	2019/20
Neath Port Talbot County Borough Council	Industrial Futures Programme	2019/20
Regional	Regional Homes as PowerStation's	2019/20
Carmarthenshire County Council	Life Science and Wellbeing Village	2019/20
Pembrokeshire County Council	Pembroke Dock Marine	2019/20
Phase 3		
City and County of Swansea	Life Science & Well Being Campus	2020/21
Regional	Regional Skills and talent initiative	2020/21
Regional	Regional Digital infrastructure	2020/21

4. Section 151 Officer Recommendations

4.1 Meeting Scope

- 4.1.1 All four regional Lead Authority Section 151 Officers convened (17th October 2019), with attendance from Welsh Government, to review the City Deal Programme cash flow forecast, the impact of reduced grant award profiles and review the cash flow concerns within the PDM project.

4.1.2 On reviewing all scenarios and profiles presented, recommendations were concluded, ensuring affordability of the programme throughout the 15 year term, temporary cash surpluses are treated in an equal and objective manner and the PDM project is supported constructively without detriment placed on the delivery of the programme.

4.2 Cashflow Recommendations

- i) Programme cash surpluses made available for lending to Lead Authorities. Lending offered on an annual basis (over 12 month term as required), subject to annual review.
- ii) An interest rate attached to any lending facilities engaged, based on a charge of the Bank of England base rate, plus 0.25%, as an annual percentage rate.
- iii) Programme cash surpluses not utilised in lending facilities, invested on behalf of the Programme by the Accountable Body and in line with the nominated Authorities Treasury Policy.
- iv) Income generated through Programme investing activities, dispersed to each of the projects on a pro rata basis.

4.3 Grant Profile Recommendations

- i) JC to request Accountable Body Section 151 Officer and a SBCR Chief Executive Officer (or second S 151 Officer) to formally approach and consult with UK and Welsh Governments to review the current grant award profile, with a request to reduce this profile of funding from 15 years to a lesser term e.g. 7 or 10 years. This will allow the funding to be front loaded more in line with the Programme expenditure

4.4 Conclusion

- 4.4.1 Through the adoption of the suggested recommendations (4.2 Recommendations) a clear, transparent and impartial approach will be concluded in respect of programme cash surpluses, programme lending and support for the delivery of the PDM project.
- 4.4.2 The recommendations allow for the support of the front loading of grant to the PDM project in line with scenario 1.4 Fifteen Year Grant Profile, with PDM's Grant Leveraged. To ensure equality throughout the programme delivery, any grant forwarded above that of the projects entitlement will be treated as a lending facility between that of the programme and the Lead Authority.

4.4.3 Any lending facilities within in the programme will be favourable to the engaged Authority, with the advantage of borrowing at a reduced interest rate. However, with the applied interest rate recommended (4.2 Recommendations), lending facilities would not be to the detriment of the Programme, should investing activities have been otherwise engaged.

Background Papers: None.

Appendices: None