



Report of the Section 151 Officer

Cabinet – 15 February 2024

Capital Budget & Programme 2023/24 - 2028/29

Purpose:	This report proposes a revised capital budget for 2023/24 and a capital budget for 2024/25 - 2028/29
Policy Framework:	Medium Term Financial Plan and Capital Strategy 2023/24 – 2028/29
Consultation:	Cabinet Members, Corporate Management Team (CMT), Legal, Finance and Access to Services
Recommendation(s):	It is recommended that Cabinet: 1) Approves the revised capital budget for 2023/24 and the capital budget for 2024/25 – 2028/29 as detailed in appendices A, B C, D, E, F and G is approved.
Report Author:	Ben Smith
Finance Officer:	Ben Smith
Legal Officer:	Debbie Smith
Access to Services Officer:	Rhian Millar

1. Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals for 2023/24
- Capital expenditure and financing proposals for 2024/25 – 2028/29

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 capital budget proposals are detailed in appendices to this report as follows:

Appendix A Total General Fund Capital Budget Expenditure 2023/24 - 2028/29

Appendix B Total General Fund Financing 2023/24 - 2028/29

Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2023/24 - 2028/29

Appendix D C21st Schools Programme Band A Capital Expenditure and Budget 2012/13 – 2023/24

Appendix E QEd/Sustainable Communities for Learning Programme Capital Expenditure and Budget 2017/18 – 2028/29

Appendix F Swansea Central City Deal Capital Expenditure and Budget 2018/19 – 2024/25

Appendix G Material changes to the original 2023/24 budget

Further review of the Capital Programme will be undertaken in the form of a fundamental mid-year review during 2024/25, which will further update and refine these appendices.

1.4 Appendix A, C, D, E and F outline a comprehensive programme of capital investment including:

- The continued investment in Swansea Schools through Band B, which now has five completed projects, and the first five years of the proposed nine-year rolling programme of the QED/Sustainable Communities for Learning Schools Programme.
- Swansea Bay City Deal schemes, the completion of Phase 1 the North Block including the Arena with further elements due for completion during the coming 12 months and continuation of construction of Phase 2 Digital Village 71-72 Kingsway Offices
- A significant programme of work on Mumbles Seawall repairs, Hafod Copperworks and our Community Hub Development.

1.5 The additional capital investment identified above will attract significant grant funding (QED/Sustainable Communities for Learning Schools Programme and Swansea Bay City Deal), however the programme will still require 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 medium/long term envelope of affordability.

Furthermore, it has to be recognised that the scale of funding proposed to be injected by this Council, leverages in significant additional sums:

- £304.606m of Welsh Government funding for the Sustainable Communities for Learning nine year rolling programme,
- a City Deal, worth, across the region, around £1.3 billion.

The Council continues to face significant challenges delivering the Capital Programme during uncertain economic times with high inflation impacting on capital budgets.

- 1.7 The QED/Sustainable Communities for Learning Programme represents the largest single component of capital investment incorporated within the proposed capital programme. The numerous schemes comprise new school builds and significant asset improvements for both English and Welsh medium Schools throughout Swansea.

- 1.8 The Swansea City & Waterfront Digital District project is one of nine 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: an Innovation Matrix 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 has delivered a 3,500 capacity Digital Arena and associated developments (also led by the Council).

A 5-case business model was approved by UK and WG which sets out the project in great detail, including the benefits, costs, procurement process and income derived. Practical completion of the Arena was achieved in March 2022 and the tenant and operator the Ambassador Theatre Group (ATG) have signed a 30 year lease, and have sold 145,000 tickets to March 2023 with 250,000 through their doors.

With regard to Digital Village, a contractor has been procured and funding authorised through an FPR7 report. Construction is well advanced with completion anticipated in March 2024 followed by a four-month fit out programme. The Council, through the Shaping Swansea procurement process, has appointed Urban Splash as a long-term development partner and entered into a 20-year Strategic Partnership Agreement. Urban Splash are currently engaged in the feasibility stage of several of the 7 sites, with the Swansea Central Hub office development being targeted for cabinet in June to consider the proposal and funding agreement. The partner and the Council will then progress the 7 sites as set out in the procurement process.

Cabinet, through an FPR7 report, approved the capital funding to reimagine Castle Square to create a step change in the quality of its public realm. An increased level of green space with up to 4 new commercial units will create a new destination which will make it more active, distinctive, and vibrant in line with other regeneration investment which is taking place in the city centre. A contractor has been appointed and progressing the next stage of design through a Pre-Contract Service Agreement to inform a cabinet report in June. A start on site will quickly follow.

2. Capital Budget 2023/24 – 2028/29

2.1 Total General Fund Expenditure in the current year is forecast to be £142.368m (see Appendix A) an increase of £37.5m (see Appendix G) compared with the original estimate of £104.004m excluding waste provision.

This increase is due to the following:

- The addition of grant funded and non-grant funded schemes after Council approved the capital budget in March 2023, together with increases in the cost of schemes due to inflation levels over the past two years.
- Reprofiled forecast Cashflow of Swansea Central City Deal Arena scheme and 71-72 Kingsway Offices
- The net balance of schemes reprofiled from 2022/23 into 2023/24 and schemes reprofiled from 2023/24 into 2024/25.

2.2 The proposed capital programme 2023/24 – 2028/29 and associated financing is set out below in 2.3 for The General Fund Programme, 2.4 for QED/Sustainable Communities for Learning Schools Programme and 2.5 for the Swansea Central City Deal Programme.

2.3 The General Fund Programme and Financing 2023/24 -2028/29

2.3.1 The General Fund programme is detailed in Appendix C. 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 2nd March 2023 outlined an unsupported borrowing requirement for the in-year and five year forward programme of £126.153m.

2.3.3 The updated total Capital programme which includes QED/Sustainable Communities for Learning Schools Programme and Swansea Central City Deal schemes highlights a 5 year forward expenditure programme plus 2023/24 of £431.532m (Appendix A) identifying an unsupported borrowing requirement of £147.559m (Appendix B). 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 has developed over recent years and, in the case of the

funding, from the City Deal, across the next 10 years. Some Major schemes within the General Fund Capital Programme which are partially or fully financed by borrowing are as follows:

- Swansea Central Arena phased development
- Digital Village, 71-72 Kingsway offices
- Community hub development
- Castle Square Regeneration
- Palace Theatre development
- Swansea Vale new car park where borrowing will be financed by future rental income.

2.3.5 Although there is significant accompanying grant funding and City Deal funding for a number of these schemes, there is a substantial unsupported borrowing requirement to underwrite these schemes. The detailed financing for the City Deal schemes is shown in Appendix B.

2.4 Schools Programme and Financing 2023/24 – 2028/29

2.4.1 In July 2017 Cabinet endorsed the council's Band B of the 21st Century Schools Strategic Outline Programme and the proposed capital investment priorities. Since the initial approval there have been several other changes within the programme. The Welsh Government capital grant intervention rate was set at 50% for Band B, but Welsh Government announced on 21 November 2018, that the Band B intervention rate for capital projects would be increased to 65%, and for special schools and PRUs to 75%. The intervention rate for voluntary aided projects remained unchanged at 85%. In September 2023, Cabinet endorsed an uplift to the programme envelope to £176m, with a switch to wholly capital funding (instead of using the Mutual Investment Model for some of the projects).

2.4.2 Since 2017, the remaining Band A project – a new build for Gorseinon Primary School – has been completed. The completed Band B projects are new builds for the Pupil Referral Unit (Maes Derw), YGG Tan y Lan and YGG Tirdeunaw, and new blocks and refurbishment and remodeling for Ysgol Gyfun Gwyr and Bishopston Comprehensive School.

2.4.3 Band B ends on 31 March 2024 and councils are now required to submit a new Strategic Outline Programme (SOP) to the Welsh Government for a rolling programme by 31 March 2024.

2.4.4 The nine-year capital programme, extending to 2032/33 and including an indicative funding forecast for the nine years, is required to be submitted to the Welsh Government for consideration towards providing a commitment and support for the first three years along with in-principle support for years 4, 5 and 6. Years 7 to 9 will reflect the longer-term project pipeline. Band B projects not yet completed can be included at the beginning of the nine-year capital programme.

2.4.5 The new draft rolling programme is the subject of a separate report on the agenda which details the expected costs and funding. Following this report the Strategic Outline Programme must be submitted by 31st March 2024 for scrutiny by WG policy teams over a period of several months.

2.4.6 If approved, each of the investment priorities will be subject to detailed business case development and further WG approvals, together with separate reports to Cabinet for decision. Some of the priorities may require statutory consultation and catchment area reviews. These will be the subject of separate Cabinet reports.

2.5 Swansea Central City Deal Programme and Financing

2.5.1 The Swansea Central City Deal Phase 1 Arena scheme construction phase was approved at Cabinet on 21 November 2019 at a cost of £134.837m, subsequently increased for additional elements to £135.1m (Appendix F). The detailed outstanding financing for this scheme is shown in Appendix B and spend will be funded from a combination of City Deal grant, capital receipts and unsupported borrowing.

2.5.2 Swansea Central City Deal Phase 2 Digital Village scheme construction has commenced on site. The current approved financing for this scheme at a total of £41.592m is shown in Appendix F which is funded from a combination of City Deal grant, unsupported borrowing and contributions.

2.6 Financing the Capital Programme

2.6.1 The financing for the General Fund capital programme identified in 2.3, 2.4 and 2.5 is detailed in Appendix B and requires unsupported borrowing of £147.559m towards forecast expenditure of £431.532m (Appendix A).

2.6.2 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.

2.6.3 It is recognized that a forecast capital financing requirement of £147.559m remains 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.

2.6.4 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, mitigating the impact of revenue provision in the earlier years, aligning the repayment of the debt with the lifetime of the asset. It was recognised there would be short term 'savings' which would reverse in later years, therefore the establishments of the capital equalization reserve was approved by Council to mitigate and forward plan for the same. Advantage was taken of the low interest rate and volatility in the market to externalise some of its borrowing requirement in 2018/19, by borrowing £90m, although the overall strategy is to mitigate the impact of interest charges by utilising internal resources to meet Cashflow demands but opportunities to take advantage of long-term value shall be taken when deemed appropriate. Notwithstanding this and noting the already emerging risks to the upside to long term interest rates and the significant capital financing identified by this report, it was determined that in line with good Treasury Management practice and being mindful of interest rate movements and cashflow requirements, that during the financial year 2021/22, a further £120m of PWLB borrowing was undertaken. This borrowing was taken in 3 separate tranches at an average of 1.94% during the year. (This is the cheapest borrowing ever undertaken by this Council). It should be noted that the decision to defer this funding from 2018/19 to 2021/22 was explicit, whilst the PWLB premium was in place and consultation to changes was ongoing. This deferral has therefore avoided the 1% premium imposed on PWLB borrowing during that time.

2.6.5 Noting the programmed profile of grant payments in respect of The Swansea Bay City Deal Financing, it has been determined prudent to utilise the already established 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 within the current planning envelope assumption of up to an additional £50m of borrowing already assumed, are self-financing or the associated additional financing costs can be supported from likely future revenue budgets affordably and sustainably. The costs of financing the same are forecast to be materially higher than the recent past noting the rising GILT yield environment, which in turn may limit the capital secured for any policy choice over the balance between revenue and capital priorities. Policy choices will also continue to be made on the degree of public subsidy that any individual

schemes may require having due regard to our obligations to lead and shape regeneration and pump prime wider investment activity.

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. In addition, a local authority must also set out its overall capital strategy and ensure that if it is to be funded via PWLB satisfies the now implemented borrowing criteria.

6.2 Two further reports will be presented to Council on 6th March 2024 and will detail what is required under the requirement of the Code and set out in detail Prudential Borrowing Indicators for 2024/25 and subsequent years and outline the overall Capital Strategy of the Authority.

7. Integrated Assessment Implications

7.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, 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 Acts.
- 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.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to their own needs.

7.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

7.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

7.4 An integrated 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 Integrated Impact Assessment process.

Background Papers: None

Appendices:

Appendix A - Total General Fund Capital Budget Expenditure 2023/24 - 2028/29

Appendix B - Total General Fund Financing 2023/24 - 2028/29

Appendix C - General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2023/24 - 2028/29

Appendix D - C21st Schools Programme Band A Capital Expenditure and Budget 2012/13 – 2023/24

Appendix E - QEd/Sustainable Communities for Learning Programme Capital Expenditure and Budget 2017/18 – 2028/29

Appendix F - Swansea Central City Deal Capital Expenditure and Budget 2018/19 – 2024/25

Appendix G - Material changes to the original 2023/24 budget

Appendix H - Integrated Impact Assessment