

Councillor Jeff Jones
Convener
Development & Regeneration Performance
Panel
BY EMAIL

Please ask for: Councillor Rob Stewart
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Our Ref: RS/CM
Your Ref:
Date: 3rd January 2019

Dear Councillor Jones

Thank you for your letter dated 29th November 2018 and I would respond as follows.

1. We appreciate that the Swansea Central Phase 1 Update and FPR7 will be continually updated however in its present position, we do not feel that the current proposal is affordable. We cannot consider any additional money or future income which is not included in this report and in its current form the project is too expensive. The panel also took into account the plans for other project borrowing that would result in further capital finance charges.

The report in front of Scrutiny Panel was for £3m extra, with a contingent £6.9m on top. The forecast full capital ask was referred to in the report but was not the decision facing Cabinet. Both the S151 Officer and I were clear that this step phasing approach was affordable. Indeed the S151 Officer could not sign off a report that did not have identified and agreed sources of funding. That is why the step phase approach was being sought.

Both of us gave undertakings to ensure that a full decision case setting out the full capital cost and all revenue costs and future income streams, and sensitivity analysis on the robustness of those assumptions, which would be set out in the full report due to come back to Cabinet in April or May. At that point we expect cost certainty, city deal funding certainty, firmed up revenue additional income and new cost projections and likely interest rate certainty from entering into fixed term borrowings.

The S151 Officer also drew attention to the pending review of MRP policy due to Council in December which if passed could cut the cost of the scheme financing by around 25%. This would be fully reflected also in the future update report.

2. We have concerns that the business case has still not been signed off, despite this expecting to have been done some months ago. This delay is concerning considering work has been undertaken in anticipation of the business case being confirmed.

As I made clear at the meeting of Scrutiny Panel the business case sign off by UK and Welsh Governments remains imminent in their words. The decision rests with them. Until it is signed off the City Deal grant cannot currently be released. As soon as it is it will be and

grant claims on the underlying funds will be made by this Council. Nevertheless I have been clear as Leader that momentum will not be lost on this historic opportunity to regenerate the city centre even if that means measured risk taking by the Council in step wise fashion as set out in the report, which sought just £3m immediately and a contingent £6.9m. The full report for the full spend will come back in due course for full consideration by scrutiny panel and Cabinet.

3. Following on from this, when the business case does come back from sign off, it should come through the proper scrutiny process for feedback so the Panel can comment on the in depth proposals and act as a critical friend to the project overall.

The business case being signed off in itself should not detriment the project. It leverages money in on top of the Council. I would prefer to take it in the round with the wider update report due back to Cabinet which will undoubtedly come back before this panel in any case rather than to bring the business case itself back alone to this panel for review . This is simply because the business case is being signed off by the UK and Welsh Government to proceed with their contribution. I am not sure what role this scrutiny panel thinks it has in scrutinising the decision of the UK and Welsh Government to invest. Taken in the round come April/May when the whole cost and funding package is firmed up in the final report , including the UK and Welsh Government share, a role for scrutiny to critically friend is more appropriate.

4. In relation to financial risk, can you clarify what risk assessments are being undertaken to assess the financial risk to the Council?

The financial implications and risks were fully set out in the report including the most extreme scenario which unfortunately, but not perhaps surprisingly, the press chose to sensationally headline with, missing many of the clear nuances and assurances set out in the wider report.

5. The Panel are concerned about the comment in the report that ‘...sufficient headroom [must be] created in terms of revenue savings to pay for capital financing costs...’ this does imply an impact on the revenue budget – can you comment on this and explain what this impact is likely to be?

The previously agreed medium term financial plan at Council agreed headroom of up to £200m of unsupported borrowing which would cost an estimated peak of £14m additional capital financing costs to be met out of revenue in around 2025/26, beyond the lifetime of the current and next mtfp report. The S151 Officer advice has been quite clear that in a scenario of limited grant resource and continued real terms budget reductions, policy decisions by Cabinet and Council will need difficult choices to be made. The medium term financial plan makes clear the current scale of increases that are likely.

Equally the Section 151 Officer has repeatedly made clear that he expects to ask Council to consider its MRP policy and materially reduce the costs of borrowing in the short to medium term. That equally affects the city regeneration and city deal projects. Council has also received and acted upon advice from the S151 Officer to set up and fund a Capital Equalisation Reserve with the purpose of helping smooth the costs of capital financing on large scale projects.

As Leader I have sought advice from the Section 151 Officer and on the basis of the likely timing of spend on capital, new Welsh government capital grant allocations announced, the likely change to MRP policy to come, given that is the technical officer advice , the current level of revenue underspend on capital financing, and the current balance on the capital

equalisation reserve that there is, and should be, sufficient in the reserve to smooth out the impact over the lifetime of this current Council.

There is clearly some future cost as fully set out in the report but there are equally future costs and consequences of doing absolutely nothing for the City's regeneration.

6. The issue of City Deal finances is a live one and each new phase should be highlighted and brought before the Panel for effective scrutiny.

This is accepted and regular key gateway updates will come before the panel at it's request, before decisions go to Cabinet.

7. Having to undertake pre-decision scrutiny on a complex report in such a short period of time is difficult. The short timescales can potentially impact the effectiveness of the scrutiny being undertaken.

The position was exacerbated on this occasion by it being a special Cabinet to consider the report. Where practicable, all necessary time will be made available by officers and members to consider reports in full. Equally, however there may be occasion where it is necessary to move at speed to maintain momentum and I am sure scrutiny would not expect any more time than Cabinet to consider and receive reports where it is in the interests of wider Council to progress at pace, whilst wholly recognising the scrutiny right and role to review and advise.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a horizontal line and a small loop at the end.

**COUNCILLOR ROB STEWART
LEADER & CABINET MEMBER FOR ECONOMY & STRATEGY**