



Report of the Section 151 Officer

Cabinet - 18 February 2021

Capital Budget & Programme 2020/21- 2026/27

Purpose:	This report proposes a revised capital budget for 2020/21 and a capital budget for 2021/22 - 2026/27
Policy Framework:	Sustainable Swansea – Fit for the Future
Consultation:	Cabinet Members, Corporate Management Team (CMT), Legal, Finance and Access to Services
Recommendation(s):	It is recommended that: 1) The revised capital budget for 2020/21 and a capital budget for 2021/22 – 2026/27 as detailed in appendices A, B C, D, E, F and G is approved.
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1. Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals for 2020/21
- Capital expenditure and financing proposals for 2021/22 – 2026/27

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 2020/21 - 2026/27

Appendix B Total General Fund Financing 2020/21 - 2026/27

Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2020/21 - 2026/27

Appendix D C21st Schools Programme Band A Capital Expenditure and Budget 2012/13 – 2021/22

Appendix E C21st Schools Programme Band B Capital Expenditure and Budget 2017/18 – 2026/27

Appendix F Swansea Central City Deal Capital Expenditure and Budget 2019/20 – 2021/22

Appendix G Material changes to the original 2020/21 budget

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

- A significant continuing programme of IT investment across the Council
- The continued investment in Swansea Schools through the Band B phase of the 21st Century Schools Programme, with a number of builds commenced during 2020-21
- Swansea Bay City Deal schemes, the construction phase for Phase 1 the Arena and design / approved planning / procurement for Phase 2 Digital Village
- A significant programme of capital expenditure to assist the City's economic recovery from the Covid 19 pandemic

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 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:

- £98m of Welsh Government funding for Band B schools
- a City Deal, worth, across the region, around £1.3 billion.

This has been an unprecedented year for the Council, maintaining business as usual alongside delivering an already ambitious capital programme whilst managing the impacts of the Covid 19 pandemic. It soon became clear that the Council had a leading role to play in facing the challenges posed by the pandemic in delivering emergency Covid grant payments to local businesses

and carers, whilst leading the procurement and sourcing of vital scarce PPE for the region in the early days of the pandemic.

As part of the Region's response to address projected increased demand on hospital services as a result of the Covid 19 pandemic, Swansea Council was asked by Swansea Bay University Health Board (SBUHB)/ Welsh Government (WG) to deliver a 1,000 bed Surge Hospital on the site of the old Bay Studios in SA1.

The scheme was completed in an exceptionally short timeframe. It was conceived, designed, delivered and operational within 3 months (April – June 2020) by Corporate Building Services in partnership with SBUHB / WG and our partner sub-contractors, Kier and TRJ.

- 1.7 Band A and Band B of the Welsh Government's 21st Century Schools and Colleges programme represent 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: 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 capacity Digital Arena and associated developments (also led by the Council). A 5 case business model has been approved by UK and WG, it sets out the project in great detail, including the benefits, costs, and income derived. After an FPR7 report to cabinet the Digital Square construction has been on site for 12 months and has a further 9 months to go subject to the impact of covid-19. The Arena operator is contracted under an agreement for lease. With regard to Digital Village, a planning consent has been granted and contractor procurement has commenced, a cabinet FPR7 report seeking funding to build the scheme is planned for March 2021 with a potential start on site in May 2021.

The Council is seeking a long term partner for the next phases of regeneration for Swansea through the Shaping Swansea procurement process, a competitive dialogue process has commenced with a partner to be selected in September 2021. The partner and the council will then progress the 7 sites as set out in the procurement process.

2. Capital Budget 2020/21-2026/27

- 2.1 Total General Fund Expenditure in the current year is forecast to be £204.457m (see Appendix A) an increase of £89.201m (see Appendix G) compared with the original estimate of £115.256m 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 February 2020, together with increases in the cost of schemes following detailed design and planning.

- Reprofiled forecast Cashflow of Swansea Central City Deal Arena scheme
- The net balance of schemes reprofiled from 2019/20 into 2020/21 and schemes reprofiled from 2020/21 into 2021/22.

2.2 The proposed capital programme 2020/21 – 2026/27 and associated financing is set out below in 2.3 for The General Fund Programme, 2.4 for The 21st Century Schools Programme and 2.5 for the Swansea Central City Deal Programme

2.3 The General Fund Programme and Financing 2020/21 -2026/27

2.3.1 The General Fund programme in summary together with detailed schemes is 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 20th February 2020 outlined an unsupported borrowing requirement in the five year forward programme of £178.699m

2.3.3 The updated total Capital programme which includes C21st Schools and Swansea Central City Deal Phase1 Arena highlights a 6 year forward expenditure programme plus 2020-21 of £499.049m (Appendix A) identifying an unsupported borrowing requirement of £180.724m (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 will develop over the next 5-7 years and, in the case of the funding, from the City Deal, the next 15 years. Some Major schemes within the General Fund Capital Programme which are partially or fully financed by borrowing are as follows:

- Swansea Central Arena, additional phased development £110.72m for construction phase
- Palace Theatre development £7m total scheme value
- Property investment portfolio £8.3m (borrowing will be financed by future rental income)
- Swansea Vale new car park facility £3.1m (borrowing will be financed by future rental income)
- Capital contingency of £20m to assist the City's economic recovery from the Covid 19 pandemic

2.3.5 Although there is significant accompanying grant funding and City Deal funding for the first two schemes above, there is 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 2020/21 -2026/27

- 2.4.1 Band A of the Welsh Government's 21st Century Schools and Colleges Programme has drawn to a close, and Band B officially commenced on the 1 April 2019 .
- 2.4.2 Band A 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 from the programme plus £150k Challenge Cymru funding). Band A completed with the handover of Gorseinon Primary School in August 2020.
- 2.4.3 The increase in cost of the Gorseinon Primary School project was funded in part from savings made through unspent optimism bias on other completed Band A projects, but required an overall increase in the Band A programme envelope of £197k from £51.310m to £51.507m. This resulted in a saving against the Band B programme envelope, which was reduced accordingly by £197k.
- 2.4.4 The Band A total therefore now is £51.657m including the £150k Challenge Cymru funding.
- 2.4.5 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 and Colleges 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 is increased to 65%. (The intervention rate for special schools and PRUs is increased to 75%, and the rate for voluntary aided schools remains the same at 85%). However the programme is not affected by this change.
- 2.4.6 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.
- 2.4.7 The Band B programme envelope is now therefore £149.5m (if the potential aided sector scheme is excluded this amounts to £141.3m). Of this total, £126.250m is being sought from traditional capital funding, requiring (after allowance for realisable capital and other receipts) a net local funding requirement of £35.848m from unsupported borrowing. The remaining £23.247m (or £15.032m if the potential aided sector scheme is excluded) is expected to be delivered through the MIM, 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 £2.856m although the 25% local contribution would apply to the annual revenue charge.

- 2.4.8 The early projects in Band B have made good progress despite the challenges posed by the pandemic. Particular issues include matters such as the capacity of contractors to maintain progress of schemes to timescales with the impact on the availability of staff, the impact on the procurement and supply chains involved for materials, and the limitations of meetings on site.
- 2.4.9 The first project, a new build for Education Other Than At School (EOTAS) at Cockett; is currently on site and construction is due for completion in early 2021.
- 2.4.10 The extension, remodelling and refurbishment of Bishopston Comprehensive School started on site in June 2020 and is due to be completed in autumn 2022. The first phase of that project was the construction of a new modular block that was handed over in December 2020.

The new builds for YGG Tan y lan and YGG Tirdeunaw also started on site in 2020 and both are due to be completed at the end of 2021, ready for occupation by the schools early in 2022. The extension and remodelling project at YG Gwyr also started on site in the summer of 2020 and is on track for completion in December 2021.

Pre-construction phase scoping and feasibility is now in progress for the projects for YGG Bryntawe to provide additional capacity and address condition and suitability issues at Gowerton secondary school.

The planning for the next phase of the programme will now commence so that the final phases of Band B can be brought forward.

There are now only three possible MIM schemes included in the programme since the switch of the special school to capital on the advice of Welsh Government that it was no longer suitable for MIM funding.

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 (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, WG grants, capital receipts and predominantly unsupported borrowing.
- 2.5.2 The Swansea Central City Deal Phase 2 Digital Village scheme is at contractor procurement stage and as noted in paragraph 1.8, a cabinet FPR7 report seeking funding to build the scheme is planned for March 2021 with a potential start on site in May 2021. The current approved financing for this scheme is shown in Appendix F which is from unsupported borrowing.

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 £180.724m towards forecast expenditure of £499.049m (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 £180.724m 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.
- 2.6.4 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. Having taken advantage 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 as far as possible. However, noting the significant capital financing identified by this report, 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 remaining external borrowing shall be averaged in the short/medium term, as the capital programme develops with the associated increase in interest payments. It should be noted that the 1% premium imposed on PWLB borrowing was removed in Nov 2020 with stringent guidance outlining what PWLB borrowing can and cannot be used for. The most economically / operationally advantageous form of borrowing shall be determined by the S151 Officer.

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 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.

7.2 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: None

Appendices:

Appendix A - Total General Fund Capital Budget Expenditure 2020/21 - 2026/27

Appendix B - Total General Fund Financing 2020/21 - 2026/27

Appendix C - General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2020/21 - 2026/27

Appendix D - C21st Schools Programme Band A Capital Expenditure and Budget 2012/13 – 2021/22

Appendix E - C21st Schools Programme Band B Capital Expenditure and Budget 2017/18 – 2026/27

Appendix F - Swansea Central City Deal Capital Expenditure and Budget 2019/20 – 2021/22

Appendix G - Material changes to the original 2020/21 budget