



Report of the Section 151 Officer

Cabinet – 17 February 2022

Capital Budget & Programme 2021/22- 2026/27

Purpose:	This report proposes a revised capital budget for 2021/22 and a capital budget for 2022/23 - 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 2021/22 and a capital budget for 2022/23 – 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 2021/22
- Capital expenditure and financing proposals for 2022/23 – 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 2021/22 - 2026/27

Appendix B Total General Fund Financing 2021/22 - 2026/27

Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2021/22 - 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 2018/19 – 2022/23
- Appendix G Material changes to the original 2021/22 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 on-site during 2021-22
- Swansea Bay City Deal schemes, the construction and near completion of Phase 1 the Arena and commencement of construction of 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.

The Council continues to face significant challenges maintaining business as usual alongside delivering an already ambitious capital programme whilst managing the impacts of the Covid 19 pandemic. The Council continues to play a significant role in delivering Welsh Government schemes to support local businesses during the pandemic by delivering emergency Covid grant payments to local businesses.

1.7 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: an Innovation Matrix and Innovation Precinct project (led by UWTSO); 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 24 months and has a further 2 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 contractor has been procured and funding authorised through an FPR7 report and construction has started on site.

The Council through the Shaping Swansea procurement process, has appointed Urban Splash as a long term development partner. 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.

2. Capital Budget 2021/22-2026/27

2.1 Total General Fund Expenditure in the current year is forecast to be £159.479m (see Appendix A) an increase of £54.965m (see Appendix G) compared with the original estimate of £104.514m 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 2021, 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 2020/21 into 2021/22 and schemes reprofiled from 2021/22 into 2022/23.

2.2 The proposed capital programme 2021/22 – 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 2021/22 -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 4th March 2021 outlined an unsupported borrowing requirement in the five year forward programme of £180.724m

2.3.3 The updated total Capital programme which includes C21st Schools and Swansea Central City Deal Phase1 Arena highlights a 5 year

forward expenditure programme plus 2021-22 of £410.615m (Appendix A) identifying an unsupported borrowing requirement of £136.520m (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 11 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 £110.72m for construction phase
- Digital Village offices
- Community hub development
- Castle Square Regeneration
- Palace Theatre development £7m total scheme value
- 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 2021/22 -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 total of £51.507m (plus £150k Challenge Cymru funding).

2.4.3 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. The grant intervention rate for capital projects is 65%, except special schools and PRUs which is 75%, and voluntary aided schools which is 85%.

2.4.4 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.

2.4.5 The Band B programme envelope is £149.5m (if the potential aided sector scheme is excluded this amounts to £141.3m). Of this total, £124m is being sought from traditional capital funding, requiring

(after allowance for realisable capital and other receipts) a net local funding requirement of £34.5m from unsupported borrowing. The remaining £25.19m (or £16.975m 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 for the MIM scheme excluding the voluntary aided sector would be £3.225m although the 19% local contribution would apply to the annual revenue charge.

- 2.4.6 The early projects in Band B have made good progress despite the challenges posed by the pandemic. Particular issues continue to include matters such as the capacity of contractors to maintain progress of schemes to timescales with the impact on the availability of staff, and the impact on the procurement and supply chains involved for materials. Resourcing of projects both internally and externally is also impacting timescales.

The first project, a new build for Education Other Than At School (EOTAS) at Cockett is now completed and occupied by pupils.

The extension, remodelling and refurbishment of Bishopston Comprehensive School started on site in June 2020 and several phases have now been completed and occupied by pupils. The project is due to be fully completed in autumn 2022.

- 2.4.7 The new builds for YGG Tan y lan and YGG Tirdeunaw also started on site in 2020. YGG Tirdeunaw is now completed and the school is in occupation. YGG Tan y lan will open to pupils in January 2022. The extension and remodelling project at YG Gwyr also started on site in the summer of 2020, the new block is completed and open to pupils and the second phase of the project is due to be completed in early Spring 2022.

- 2.4.8 Good progress has been made with the feasibility and design development for YGG Bryntawe to provide additional capacity and address condition and suitability issues at Gowerton secondary school.

- 2.4.9 The planning for the next phase of the programme is now in progress so that the final phases of Band B can be brought forward.

There remain 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, subsequently increased for additional elements to £135.267m (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 A contractor has been procured and construction commenced on the Swansea Central City Deal Phase 2 Digital Village scheme. 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 £136.52m towards forecast expenditure of £410.615m (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 £136.52m 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 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 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 2021/22 and subsequent years.

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 2021/22 - 2026/27

Appendix B Total General Fund Financing 2021/22 - 2026/27

Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2021/22 - 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 2018/19 – 2022/23

Appendix G Material changes to the original 2021/22 budget

Appendix H - IIA