Cyngor Abertawe
Swansea Council

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Councillor Jeff Jones
Convenor
Development & Regeneration Performance Panel

BY EMAIL

Please ask for: Councillor Rob Stewart
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Our Ref: RS/CM
Your Ref:
Date: 3rd December 2018

Dear Councillor Jones

Thank you for your letter dated 13th November 2018 and I would respond as follows.

QUESTION 1
The Panel are concerned that there seems to be a substantial delay in signing off the business case. It was expected earlier in the year and it still has not been received. Can you comment on this please?

RESPONSE
Our five case business model was submitted in December 2017. We have received three rounds of comments from Welsh and UK Governments - February, May and the latest comments on 5th November. We have promptly responded to all queries and are busily compiling our response to the latest set of queries. We are hopeful that this will conclude matters and will allow the final sign off of the project.

QUESTION 2
The Panel have concerns regarding how funding will be impacted for the overall regeneration projects with no City Deal money currently released. As the accompanying work to support the large scale projects is being funded by us, there are risks associated if the funding (for any reason) is not released or not release quickly enough. Can you comment on this?

RESPONSE
A public sector overall subsidy for the scheme is expected. The very nature of a City Deal and a co-investment in wider spillover benefits by the UK and Welsh Governments, and local authorities to pump prime future direct and indirect private sector investment in the City is because of existing market failure: without it there would be insufficient a case to proceed. The wider public sector, as well as Council, must take a lead to stimulate regeneration. That decision in principle has already been taken, with unanimous Council approval of the City Deal.

In the interim spending commitments are having to be made before any revenue certainty, before any capital financing revenue, overall affordability certainty and before any City Deal grant certainty.

The sums proposed on an interim basis are very substantial and thus financial risk increases at each stage of approval.

In extremis, if for any reason schemes could not progress and all spend to date, plus now sought, was deemed ultimately abortive capital costs to be written off to revenue, it would exceed the totality of General Fund Reserves and clearly breach the Council's fiduciary duty. That is one of several reasons why the capital equalisation reserve was established by Council on top – predominantly to smooth future costs of the whole scheme when it fully progresses – but also to provide "insurance" in the worst case scenario. It is intended that the capital equalisation reserve is actually used to offset some of the future costs as shown in the capital financing table above, even further.

The interim source of funding is almost exclusively unsupported capital borrowing at present with the promise of some future offset from City Deal Grant, capital receipts and some limited future net revenue income streams.

Any capital spending within the envisaged affordability envelope in the medium term is predicated on creating the necessary headroom to increase overall capital financing costs by 50% and making all current and planned
future revenue savings to achieve that headroom. Deviation from that plan will limit the ability to finance the future capital ambition. There is already substantial current adverse deviation from the revenue planning assumptions in the current year of over £8m per annum, most of which will roll forward as a future pressure into 2019-20.

The current planning assumption is that in agreeing these step phases all necessary action will be taken at officer and member and Cabinet level to assure and ensure no material deviation from revenue savings plans in the
current and all future years to enable capital to proceed in stepwise fashion requested.

Future FPR 7 reports on the scheme will set out fully the sources of likely funding the interim position pending flows of city Funding money and the consequent risks and costs falling to both revenue and capital

Yours sincerely

COUNCILLOR ROB STEWART
LEADER & CABINET MEMBER FOR ECONOMY & STRATEGY