

# **p** **CARDIFF CAPITAL REGION JOINT CABINET**

## **JOINT CABINET MEETING 15 JANUARY 2018**

---

### **USE OF 2017/18 HMT GRANT – REVENUE / CAPITAL**

### **REPORT OF ACCOUNTABLE BODY – SECTION 151 OFFICER, CARDIFF CAPITAL REGION CITY DEAL**

### **AGENDA ITEM: 7**

---

#### **Reason for this Report**

1. To advise Regional Cabinet on the options available to fund revenue expenditure associated with the Programme of Projects approved as part of the Wider Investment Fund, including the preservation of HMT revenue grant funding.

#### **Background**

2. The Cardiff Capital Region Joint Cabinet (Regional Cabinet) is responsible for preparing the Joint Working Agreement (JWA) Business Plan in respect of the Wider Investment Fund totalling £495m. The JWA Business Plan will then be submitted to each of the ten local authority partners for approval, as a matter reserved to the Councils.
3. Regional Cabinet will be aware that HMT grant funding profile consists of:
  - Years 1-5: £50 million revenue funding;
  - Years 6-20: £325 million capital funding.
4. In addition, local authority partners have committed to contributing up to £120 million of capital funding towards the Wider Investment Fund (such Council's Contributions being subject to additional costs up to the affordability envelope).
5. The effect of the Joint Working Agreement is that until such time as the JWA Business Plan is approved by all Councils, Regional Cabinet is only authorised to commit up to £50 million pounds of HM Treasury funding in respect of 'Initial Project Investments', as set-out in section 2.4 of the JWA.

#### **Issues**

6. At its meeting of 14<sup>th</sup> July 2017, Regional Cabinet received and approved proposals in respect of the Compound Semi-Conductor (CSC) Project totalling £38.5m. The approval consists of £0.6 million in respect of the Project Implementation & Delivery budget (largely revenue expenditure) and £37.9 million in respect of the Project Investment budget – a loan to fund capital expenditure.

7. Due to the timing of grant receipt, the project's profiled cashflow requirements will be partly met from a Council Bridge Loan, as detailed in Table 1.

Table 1: CSC Foundry Ltd - Funding Commitment

	2017/18 £m	2018/19 £m	Total £m
Implementation and Delivery Budget	0.45	0.15	0.60
Project Investment Budget	24.21	13.69	37.90
<b>Total</b>	<b>24.66</b>	<b>13.84</b>	<b>38.50</b>
<b><u>Funded By:</u></b>			
<b>HMT Revenue Grant</b>	<b>-19.26</b>	<b>-9.26</b>	<b>-28.52</b>
Council Bridge Loan	-5.40	-4.58	-9.99
<b>Total</b>	<b>-24.66</b>	<b>-13.84</b>	<b>-38.50</b>

8. The above results in just £11.5 million of the £50 million revenue grant remaining, once the cost of the CSC project have been met. However, this balance has effectively been earmarked to meet the future cost of Regional Bodies and the Programme Development & Support budget. Therefore currently, Regional Cabinet's ability to approve projects which are revenue in nature is severely limited.
9. Regional Cabinet is yet to agree its programme of projects, however, the City Deal Heads of Terms document makes a commitment to deliver a range of projects aimed at improving skills, through a targeted and co-ordinated programme of interventions relating to Skills and Apprenticeships. A programme of this nature will be largely revenue in nature.
10. In addition, projects which are capital in nature are still likely to need an element of revenue funding throughout their lifecycles i.e. through the stages of development, implementation and operation.
11. Based on the funding profile set-out in Table 1, up to £19.26 million of HMT revenue grant funding will be applied to the CSC Project (essentially a capital project) in the current year. Furthermore, once applied, this sum will not be available to 'resource switch' after the 31<sup>st</sup> March 2018.

#### Options and Implications

12. Regional Cabinet will have the ability to review and if appropriate update the basis on which it funds the CSC project once the JWA Business plan is approved by all 10 Councils and the Reserved Matter is discharged.
13. At that time, one option that would become available is to use part of the Local Authority £120 million capital funding to meet the CSC project funding requirements. This approach will seek to preserve the HMT revenue grant funding, providing Regional Cabinet with additional flexibility to support projects which come forward that have revenue funding requirements. As outlined above, the extent of the revenue funding that may be preserved will be conditional upon the Reserved Matter being discharged.

14. In the event this option became available and was exercised in 2017/18, Regional Cabinet should note that there will be some immediate budgetary implications that partnering authorities will need to accommodate within their respective Capital and Revenue budgets. An estimate of the sums involved are set out in Table 2.

Table 2: 2017/18 and 2018/19 Budget Implications

	2017/18 £m	2018/19 £m	Total £m
Partner Authority – Capital Budgets	24.21	13.69	<b>37.90</b>
<b><u>Capital Financing Implications:</u></b>			
Partner Authority - Revenue Budgets	0.16	0.85	<b>1.01</b>

**Note: Table 2 assumes that the £0.6 million Implementation & Delivery budget will continue to be funded by HMT grant.**

15. Regional Cabinet should note that the above does not represent an additional cost to the partnering authorities, but instead, requires an earlier than planned use of its £120 million Local Authority capital funding. In addition, the Council Bridge Loan facility outlined in Table 1, would no longer be necessary and instead that commitment would be met by partnering authorities.
16. The revenue costs reflect the early ‘Capital Financing’ implications and forms part of the Affordability Envelope (£210.8 million) sum approved by the partnering authorities for the City Deal Wider Investment Fund.
17. An alternative option is that Regional Cabinet could ‘switch’ an element of its £120 million capital funding to revenue as projects are approved and the annual revenue implications are better understood. However, as the cost of capital expenditure is spread over a much longer period, switching resources from capital to revenue in this way is likely to give rise to higher ‘annual revenue impacts’ in the earlier years, where resources are switched. This will result in additional challenges, in terms of ‘annual affordability requirements’ in the shorter-term.

#### Welsh Government Funding - Terms & Conditions

18. Regional Cabinet approved the Welsh Government funding terms and conditions at its meeting on 2<sup>nd</sup> May 2017. At this meeting Regional Cabinet were advised that Welsh Government have confirmed that in any year, where funds have been committed and/or there is a clear intention to spend, carry forward of funding to future years will be permitted. However, any carry forward in respect of the final year (2020-21), will be subject to the 5 year Gateway Review being successfully passed.
19. Therefore, in electing to preserve revenue funding beyond the initial 5 year Gateway review period does introduce a potential risk, in the event that the review is not successfully passed. However, as the proposed JWA Business Plan is predicated on the full 20 year life of the fund, Regional Cabinet is fully incentivised to pass each 5 year Gateway Review stage in order to unlock the funding for the next 5 year phase of the fund.

## Reasons for Recommendations

20. Subject to the Joint Working Agreement being discharged, to advise Regional Cabinet on the options available to fund revenue expenditure associated with the Programme of Projects approved as part of the Wider Investment Fund, including the preservation of HMT revenue grant funding.

## Financial Implications

21. The financial implications are primarily set out in the main body of the report. In the event that Regional Cabinet approves the recommendations set-out in this report, each partner authority will be responsible for meeting its share of 2017/18 and 2018/19 revenue and capital contributions as set-out in Table 2. Therefore, partner authorities will need to put in place the necessary financial governance processes to support the recommendations contained within this report.

## Legal Implications

22. In considering this proposal it is important for the decision makers to be satisfied that:-
  - (i) the proposals would accord with the WG funding conditions and all accounting rules and practices (Legal Services are instructed such is the case), and
  - (ii) would not serve to affect cost such that the Affordability Envelope, as defined in the Joint Working Agreement, is exceeded. Legal Services are instructed that the Affordability Envelope would not be exceeded if the option were to be exercised. This point is important because any decision which serves to increase the Affordability Envelope is a matter reserved to each Council for approval.

General advice.

In considering this matter regard should be had, amongst other matters, to:

- (i) The Councils' duties under the Well –being of Future Generations (Wales) Act 2015 and;
- (ii) Public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief

## Recommendations

23. Subject to the ten Councils comprising the Cardiff Capital Region City Deal approving the JWA Business Plan, on or before the 31 March 2018, it is recommended that Cardiff Capital Region Joint Cabinet:
  - a) Consider and if deemed appropriate, approve the use of part of its Local Authority £120 million capital funding (referred to in the Joint Working

Agreement as the Councils' Contribution) to meet part of the CSC project funding requirements as set-out in this report, thereby preserving part of the HMT revenue grant funding to support projects which come forward that have revenue funding requirements;

- b) Note that in the event that Recommendation a) is implemented, the need for the Council Bridge Loan facility in respect of the CSC Project will no longer be required and instead would be met by existing partner authority contributions.

**Christine Salter**

**Accountable Body- Section 151 Officer, Cardiff Capital Region City Deal**

**09<sup>th</sup> January 2018**