



REPORT TO THE NORTH WALES ECONOMIC AMBITION BOARD

25/03/2022

Title: 2022/23 Revenue and Capital Budget

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1. Purpose of the Report

1.1 The purpose of this report is to propose the North Wales Economic Ambition Board's (NWEAB) Revenue and Capital Budget for 2022/23.

2. Decision Sought

The Board is asked to approve the:-

2.1 **2022/23 Revenue Budget as presented in Appendix 1. This includes the one-off virements of £85,000 in the revenue budget to be funded from the earmarked reserve.**

2.2 **Funding contributions to include the partner contributions, local authorities' supplementary contributions and partner interest contributions.**

2.3 **Business Delivery Board's request, that the £20,000 underspend against their 2021/22 budget is carried forward to 2022/23 to give them a total budget of £40,000.**

2.4 **Capital Budget for the Growth Deal as presented in Appendix 2.**

3. Reasons for the Decision

- 3.1 In order to operate effectively within the funding available, the NWEAB requires an annual budget to be approved.
- 3.2 Appendix 1 sets out the proposed revenue budget per expenditure heading and the corresponding funding streams for the year.
- 3.3 The revenue budget includes the reduced partner interest contributions required to fund the cost of borrowing.
- 3.4 Appendix 2 sets out the proposed capital budget per project and the corresponding capital funding for the £240m growth deal.
- 3.5 To authorise the Portfolio Director to incur expenditure in accordance with the approved budget.

4. Background and Relevant Considerations

- 4.1 Although the NWEAB could be within the economic well-being power of the North Wales Corporate Joint Committee (CJC), a separate budget is established for it at present as several regulatory matters are yet to be resolved and further clarification needed regarding the CJC's rights to borrow, invest and operate commercially, tax and VAT status.
- 4.2 The proposed detailed revenue budget for 2022/23 is shown in Appendix 1 and the proposed capital budget is shown in Appendix 2.

Revenue Budget

4.3 Portfolio Management Office - £1,595,920

The budget for the Portfolio Management Office is based on 22 full time posts, and includes budgets for travel and subsistence; training; engagement and meetings; communications and public relations; supplies and services; Regional Engagement Team (RET); premises; portfolio and programme development. In addition this year, there's a budget for an ESF project evaluation which is required as part of the ESF grant conditions.

4.4 Accountable Body Support Services - £197,360

The Accountable Body provides the support services required to facilitate the work of the Joint Committee, and the budget for 2022/23 includes Finance Services Support, Legal, Corporate Support, Information Technology (IT) and Insurance. In addition this year, the IT budget includes an allocation for IT development work.

- 4.5 The scope of the services offered, charging mechanisms and estimated costs will be agreed with each department.

Joint Committee

4.6 External Legal Support - £18,000

This includes a budget for external legal support required for specialised work in relation to governance and policy issues.

4.7 External Financial Fees - £10,000

This budget will mainly cover the input from the external Treasury Advisory on the capital funding of the projects.

4.8 External Audit Fee – £11,400

This fee will cover the annual audit of the NWEAB's full statement of accounts by Wales Audit Office, as Gwynedd Council's External Auditors.

4.9 Business Delivery Board - £20,000

The £20,000 budget allocated by the NWEAB on 5 February 2021 will remain in 2022/23, and will be used to support the work of the Business Delivery Board. In addition, we were informed on the 8 March 2022 that the £20,000 allocated budget for 2021/22 will not be spent, and the Business Delivery Board have requested for this to be carried forward to 2022/23 to give them a total budget of £40,000.

Projects

- 4.10 The budget figures are estimated figures based on the most current information available, and they will need to be reviewed during the year as more information becomes available.

4.11 Project Business Case Development - £350,000

All of the individual 21 projects will require a Business Case that is approved by the NWEAB. The NWEAB will be responsible for funding the business cases for the NWEAB led projects, and this will involve extensive specialised work from external companies.

4.12 External Legal Support - £100,000

This includes a budget for external legal support required for specialised work involving the project business cases.

4.13 External Financial Support - £18,000

This includes a budget for external financial support required for specialised work involving the project business cases.

4.14 External Procurement Support - £50,000

This includes a budget for external procurement support required for the projects.

4.15 Assurance - £80,000

This includes a budget for the Government Gateway Reviews for the NWEAB and Project Sponsor led projects.

4.16 Community Renewal Fund projects - £241,270

The work includes feasibility studies in relation to potential Smart Local Energy Systems across north Wales.

4.17 Interest - £264,600

The interest contributions received from partners will be set aside to fund the average cost of borrowing associated with funding the capital budget over the deal's lifespan.

Funding Contributions

4.18 Partner Contributions – (£416,000)

In accordance with Governance Agreement 2 (GA2), the 2022/23 Budget includes a contribution of £52,000 from the six local authorities and £26,000 from the four advisors, to give a total contribution of £416,000. The partner contributions have increased by 4% since 2021/22 to reflect the proposed salary inflation, in line with clause 15.4.3 of the GA2.

4.19 Local Authorities' Supplementary Contributions – (£240,000)

Again, in accordance with GA2, the budget includes £40,000 from the six local authorities to give a total contribution of £240,000.

4.20 Partner Interest Contributions – (£264,600)

There has been a significant reduction in the anticipated total cost of borrowing, from the £12.46m in the original cost of borrowing exercise that was conducted in October 2020 ([2020-10-23 Final Deal Report v2.pdf \(llyw.cymru\)](#)) to £5.47m in the exercise that was conducted in February 2022 (Appendix 3). The recalculation has been done using the original principles and method, but has taken into account changes that have taken place, to include the:-

- UK Government's announcement to bring forward the funding from 15 to 10 years. The Welsh Government grant profile has remained at 15 years.
- Slippage in the capital programme, and now reflects the revised profile in the 2022/23 capital budget (Appendix 2).
- Reduction in Non-domestic rates (NDR) grant mainly due to a reduction in anticipated floor area, slippage in the capital programme and change to project funding.

4.21 As in 2020, the borrowing requirement has been calculated by pooling all the capital expenditure and the North Wales Growth Deal (NWGD) grant. The NDR grant from Welsh Government is then utilised to fund the borrowing costs with the net costs allocated to project lead sponsors and the NWEAB based on the project value. The borrowing costs for the regional NWEAB projects will be met by the local authorities (proportional to population).

4.22 The interest rate of 2.2% remains unchanged and is based on the advice received by Arlingclose (independent treasury advisory company).

4.23 The true borrowing costs will fluctuate from one year to the next, but in order to ease the budget setting process in the partner organisations, fixed annual contributions have been calculated. Since the partner interest contributions that were invoiced for 2021/22 were based on the original exercise, the surplus contributions received in 2021/22 have been used to reduce the contributions required over the next 14 years.

The annual partner contributions for the local authorities, higher education and further education establishments have reduced from £678,020 to £264,600. (Appendix 1 and Appendix 3).

4.24 A number of factors could alter the borrowing costs in the future, such as, change in the capital expenditure profile; the move from project lead sponsor to NWEAB, lower NDR grant etc., and we would therefore recalculate the cost of borrowing to incorporate these changes, but, we believe that the assumptions used are prudent as things currently stand.

4.25 European Social Fund (ESF) Priority 5 funding – (£959,680)

The ESF funding contributes towards the employee expenditure, and the estimated funding for 2022/23 is £959,680.

4.26 North Wales Growth Deal grant – (£750,000)

Although the North Wales Growth Deal grant is a capital grant, 1.5%, which equates to £3.6m of the North Wales Growth Deal grant, has been allocated to fund the NWEAB'S revenue expenditure. In 2022/23, £750,000 of this grant has been allocated, and this would then leave £2.5m for future years. This flexibility can be achieved in the same way that local authorities have flexibility to manage the funding of their own capital programmes. A draft copy of the Growth Deal's Financial Arrangements letter has been received from Welsh Government, and when formalised, this will provide the NWEAB with the necessary assurance in terms of the funding flexibility. This may involve all six individual local authorities, allocating the funding designated to the Growth Deal against other capital projects within their capital programmes to ensure that the equivalent value revenue funding is available for the Growth Deal to fund their revenue-type items. The CJC would also need this flexibility.

4.27 Community Renewal Funding (£241,270)

The Community Renewal Funding will be received from four local authorities (Denbighshire, Gwynedd, Isle of Anglesey and Wrexham).

4.28 Earmarked Reserve – (£85,000)

In addition to the Base Budget, one-off virements to be funded from the earmarked reserve are required in the year. This will mainly fund staff training, communications and public relations, ESF project evaluation and portfolio and programme development.

- 4.29 The third quarter review estimated a balance of £621,000 in the earmarked reserve at 31 March 2022. After using £85,000 of this balance to fund the one-off virements in 2022/23, £536,000 will be available to fund one-off costs in future years. The Portfolio Management Office, in a separate item on the agenda, will propose how this earmarked reserve will be used in 2023/24.

Capital Budget

- 4.30 The capital budget shows the expenditure profile over the period 2021/22 to 2028/29 for the 21 projects, as well as the 1.5% top-slice to fund the revenue budget over the same period. It's based on the latest projects' timescale, and will be reviewed during the year as the business cases are approved.
- 4.31 Following the UK Government's announcement in the Chancellor's budget on 3 March 2021, the budget in 2021/22 was set on the basis that Welsh Government would match the UK Government's announcement with regard to bringing forward the funding from 15 to 10 years, but Welsh Government have now confirmed that their contributions to the growth deal will remain on the original profile of 15 years. The 2022/23 budget has therefore been set to include the remaining £112m of grant funding from UK Government to be received over 9 years, while the £112m remaining grant from Welsh Government to be received over 14 years.
- 4.32 The £134.03m of the grant funding will be available to fund the expenditure as it occurs. The remaining £105.97m will be funded through borrowing in the first instance, then repaid with the surplus grant received in 2026/27 to 2034/35.
- 4.33 With capital projects, there is always a risk of overspending, and controls will be put in place to limit overspending costs on specific projects. For regional projects, the Portfolio Management Office would be responsible for controlling expenditure and

ensuring sufficient contingency budgets are included in the project business cases. Overspend would be a matter for the project sponsor to deal with in relation to their own projects.

5. Governance Context

- 5.1 The Annual Budget is required to be prepared by the accountable body and agreed by the NWEAB Joint Committee.
- 5.2 The proposed budget for 2022/23 has been prepared based on the roles, activities and responsibilities identified to date, with the expectation that the level of resources allocated is continually reviewed and updated as the projects move forward and more information is available.
- 5.3 Regular budget monitoring reports will be presented to the Portfolio Management Office staff and the Executive Group. A further detailed review will also be undertaken at the end of August 2022 and December 2022 and presented to the Economic Ambition Board, with any issues highlighted and appropriate action taken.

6. Consultations Undertaken

- 6.1 Appendices 1,2 and 3, and the information within this report was presented to the Executive Group on 4 March 2022.

7. IMPACT ASSESSMENT

- 7.1 The NWEAB is subject to duties under the Equality Act 2010 and the Well-being of Future Generations (Wales) Act (2015).
- 7.2 In accordance with the legal duties under the Equality Act 2010, when making decision, the NWEAB must give due attention to the need (1) to eliminate unlawful discrimination (2) advance equality of opportunity and (3) encourage good relations based on the protected characteristics. As setting a budget falls within the decisions which can be considered strategically, there is a duty to give due attention to operating in a way which is designed to minimise inequalities which stem from socio-economic disadvantage. As each project is subject to a very detailed business case in

line with the 'Better Business Case' guidance developed by HM Treasury and Welsh Government, it is not considered that any specific impacts stem from the decisions submitted.

- 7.3 The Well-being of Future Generations (Wales) Act 2015 involves improving the social, economic, environmental and cultural well-being of Wales. The act places a well-being duty on public bodies which is aimed at delivering the seven well-being goals, namely a prosperous, resilient, healthier, more equal Wales with cohesive communities and a vibrant culture and thriving Welsh language which is globally responsible. Given the context, the recommendations are in accordance with these duties.

8. Appendices

Appendix 1 – 2022/23 Economic Ambition Board Revenue Budget.

Appendix 2 – Economic Ambition Board's Capital Budget.

Appendix 3 – Cost of Borrowing.

STATUTORY OFFICERS' RESPONSE:

i. Monitoring Officer – Accountable Body:

No observations to add in relation to propriety.

ii. Statutory Finance Officer – Accountable Body:

Author of this report.