



REPORT TO THE NORTH WALES ECONOMIC AMBITION BOARD

24/03/2023

Title: 2023/24 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 2023/24.

2. Decision Sought

The Board is asked to approve the:-

2.1 2023/24 Revenue Budget as presented in Appendix 1.

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

2.3 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 Appendix 2 sets out the proposed capital budget per project and the corresponding capital funding for the £240m growth deal.
- 3.4 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.
- 4.2 The proposed detailed revenue budget for 2023/24 is shown in Appendix 1 and the proposed capital budget is shown in Appendix 2.

Revenue Budget

4.3 Portfolio Management Office - £1,455,990

The budget for the Portfolio Management Office is based on 20 employee posts (a reduction from 22 posts in 2022/23) and includes advertising and assessment of candidates; travel and subsistence; training; engagement and meetings; communications and public relations; supplies and services; Regional Engagement Team (RET); premises; ESF Evaluation; portfolio and programme development.

4.4 Accountable Body Support Services - £201,170

The Accountable Body provides the support services required to facilitate the work of the Joint Committee, and the budget for 2023/24 includes Finance Services Support, Legal (including Monitoring officer), Corporate Support, Information Technology (IT) and Insurance.

- 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 – £25,330

This fee will cover the audit of the annual financial statement of accounts as well as Performance Audit, and these will be conducted by Audit Wales, as Cyngor Gwynedd's External Auditors.

4.9 Business Delivery Board - £15,000

This budget will be used to support the work of the Business Delivery Board.

Projects

4.10 The budget figures are based on the most current information available, and they will be reviewed during the year as the capital programme develops.

4.11 Project Business Case Development - £270,000

All of the individual projects 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 - £85,000

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

4.13 External Procurement Support - £60,000

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

4.14 Assurance - £40,000

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

Grant schemes - £788,850

4.15 The expenditure under this heading includes external consultant fees as well as an internal support team to deliver the Local Area Energy Plans, and this expenditure is funded by a specific grant from Welsh Government.

4.16 Interest - £251,040

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

4.17 Partner Contributions – (£442,820)

In accordance with Governance Agreement 2 (GA2), the 2023/24 Budget includes a contribution of £55,350 from the six local authorities and £27,680 from the four advisors, to give a total contribution of £442,820. The partner contributions have increased by 6%, to reflect the out-turn adjustment for 2022/23 and the proposed salary inflation for 2023/24, in line with clause 15.4.3 of the GA2.

4.18 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.

4.19 Partner Interest Contributions – (£251,040)

In 2020, Arlingclose (independent treasury advisory company) were commissioned to model the cost of borrowing and the corresponding annual partner contributions required to meet this cost, and the first contributions were included in the 2021/22 budget. These contributions were then reduced in the 2022/23 budget, as a result of UK Government's announcement to bring forward the funding from 15 to 10 years and slippage in the capital programme, which both worked in our favour.

4.20 Due to factors outside of our control, higher interest rates (predicted around 4.5% compared to 2.2% in the current calculation), projects removal and higher

construction costs (which in turn affect the amount of Non-domestic Rates (NDR) grant that we will receive) will increase the borrowing costs. However, the higher interest rates have worked in our favour during this current financial year (2022/23), and around £700k in interest will be received on the £34m grant balance, and on this basis we are recommending for the partner interest contributions to remain the same for 2023/24, and for this interest to be used to bridge the increase as a one-off measure until further information is available with regard to the approval of new projects. After receiving this information, we will again be working with Arlingclose and the PMO to recalculate the borrowing costs and these will be reflected in the 2024/25 and future budgets.

- 4.21 The recalculation will be done using the original principles and method, with the borrowing requirement calculated by pooling all the capital expenditure and the North Wales Growth Deal (NWGD) grant. The NDR grant from Welsh Government will then be 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 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 will be calculated.
- 4.23 European Social Fund (ESF) Priority 5 funding – (£255,930)
- The ESF funding which contributes towards the employee expenditure, reduces significantly in 2023/24, with the funding coming to an end in June 2023. It will result in a significant challenge to the Portfolio Management Office in terms of revenue funding and in the delivery of the North Wales Growth Deal. The Portfolio Management Office will issue a separate report on the proposed way forward and possible alternative funding options, and this will be presented to the Economic Ambition Board in May.

4.24 North Wales Growth Deal grant – (£874,000)

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, with £874,000 included in the 2023/24 budget. This flexibility can be achieved in the same way that local authorities have flexibility to manage the funding of their own capital programmes. 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.

4.25 Welsh Government Energy grant (£799,870)

This funds the expenditure on the Projects heading as well as contributes towards the Energy Programme Manager's post.

4.26 UK Shared Prosperity Fund (£32,620)

This income will be received for one of the PMO staff that has been seconded to the UK Shared Prosperity scheme for three days a week.

4.27 Capitalisation of Salary Costs (£50,000)

This is the estimated capitalisation of staff cost on the Last few percent project.

4.28 Earmarked Reserve – (£274,100)

A balance of £552,027 is estimated in the earmarked reserve at 31 March 2023, and after using £274,100 to fund the 2023/24 budget, £277,927 will be available to fund one-off costs in future years.

Capital Budget

- 4.29 The capital budget shows the expenditure profile over the period 2021/22 to 2034/35 for the 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.
- 4.30 The Bodelwyddan Key Strategic Site, Llysfasi Net Zero Farm and Phase 2 of the Egni project have been removed from the Growth Deal. This funding has been used to create a new Growth Deal Fund for replacement projects of £29.55m, £6.67m has been used to provide additional funding to the most mature projects (Glynllifon Rural Economy Hub, Enterprise Engineering & Optics Centre and the Former North Wales Hospital) and £0.23m allocated to the Connecting the last few percent project.
- 4.31 The £150.91m of the grant funding will be available to fund the expenditure as it occurs. The remaining £89.09m will be funded through borrowing in the first instance, then repaid with the surplus grant received in 2028/29 to 2034/35. This is based on the current grant profile, with both Governments transferring the grant on equal instalments over 10 (UK Government) and 15 (Welsh Government) years.
- 4.32 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 will be responsible for controlling expenditure and ensuring that 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 2023/24 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. A further detailed review will also be undertaken at the end of August 2023 and December 2023 and presented to the Portfolio Board and the Economic Ambition Board, with any issues highlighted and appropriate action taken.

6. Consultations Undertaken

6.1 Appendices 1 and 2, and the information within this report was presented to the Portfolio Board on 3 March 2023.

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 – 2023/24 North Wales Economic Ambition Board Revenue Budget.

Appendix 2 – 2023/24 North Wales Economic Ambition Board's Capital Budget.

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.