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CAPITAL STRATEGY 2012/13 TO 2015/16

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1. Summary

1.1 The purpose of this report is to set the Capital Strategy for the period 2012/13 to 2015/16, based around two over-riding principles:

- The capital programme is priority led, in that it particularly reflects the need for growth on the Shropshire economy and flourishing local communities; and
- That the revenue costs of the capital programme are affordable.

1.2 The updated capital programme contained in this report, incorporates the updated capital grant allocations for 2012/13 and follows a review of the programme to re-prioritise schemes based on current priorities and to ensure the programme is affordable based on the projected level of capital resources available to the Council.

2. Recommendations

Members are asked to:

- A. Approve the revised capital programme of £69.5m in 2012/13, as set out in appendix 2.
- B. Approve the revised provisional capital programmes of £42.8m for 2013/14, £32.1m for 2014/15 and £1.7m for 2015/16, as set out in appendix 2.
- C. In accordance with the regulations, to approve a Capital Allowance of £1 million for 2012/13 to enable the Council to retain in full, capital receipts received from the disposal of Housing Revenue Account (HRA) assets (excluding Right to Buy sales). Furthermore, that the capital receipts from such sales are reserved for expenditure on the Council's housing stock.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk assessments are undertaken as part of the evaluation of all capital bids.
- 3.2 Capital receipt levels and the timing of receipts are dependant on planning approvals and prevailing market conditions.
- 3.3 Environmental appraisals are carried out for individual schemes as appropriate.
- 3.4 Community consultations are carried out for individual schemes as appropriate.

4. Financial Implications

- 4.1 This report considers the level of the capital programme for 2012/13 and the provisional capital programme for future years and considers the implications of the financing of the capital programme, including any future revenue implications.

5. Background

- 5.1 The capital programme for 2011/12 to 2014/15 was approved by Council 24 February 2011. This included updated allocations of capital grants for 2011/12 to 2014/15 and followed a review of internally financed schemes to match proposals to projected resources and reduce the ongoing revenue costs of the capital programme.
- 5.2 The Council's capital programme is subject to regular review with monitoring reports submitted to Cabinet monthly. These include budget increases as a result of the allocation of new capital grants and re-profiling of budgets to later years as a result of changes to the delivery schedule for schemes. Steps have also been taken to try to eliminate any corporate prudential borrowing requirement within the capital programme, as the on-going revenue costs are not affordable given the reduced financial settlement available to the Council.

6. Capital Allocations 2012/13 to 2015/16

- 6.1 The capital programme Report 2011/12 to 2014/15 contained a combination of confirmed and indicative allocations of capital grants for 2012/13 to 2014/15. Updated allocations have now been received and these have been built into the capital programme. Any changes to capital allocations have been pass-ported through to the service area. The following section details these allocations by budget area.

Schools

- 6.2 Department of Education only provided a one year capital allocation in 2011/12. In the 2011/12 Capital Strategy report it was assumed Basic Need funding would not continue beyond 2011/12, Condition funding would reduce by 33% and Devolved Formula Capital would remain unchanged. Confirmed 2012/13 allocations have now been received and are summarised in Table 1.

Table 1: Department of Education schools allocations

2011/12 (£)	Grant	2012/13 11/12 report estimate (£)	2012/13 Confirmed (£)
3,020,224	Basic Need		1,012,229
5,886,544	Condition	3,924,363	5,419,421
1,059,898	DFC	1,059,898	1,015,580*
9,966,666	Total	4,984,261	7,447,230

*The figures for DFC are provisional at this stage. Final allocations will be confirmed in April 2012 to take account of the Academy conversions at that date.

- 6.3 Total allocation is higher than projected for 2012/13 at the time of the 2011/12 Capital Strategy. However, the total capital allocation has fallen by 25% from 2011/12 and based on latest indications, it had been expected that the 2012/13 allocation would be in line with the 2011/12 allocation. The major area of decrease is on Basic Need, which has decreased by £2m (66%). This is as a result of a change in the methodology for calculating the Basic Need grant.
- 6.4 No allocations have been announced for beyond 2012/13. These are pending the outcome of the James' Review of education capital. The Review is considering how the Department for Education could achieve better value for money and improve efficiency in capital investment and could result in changes in the mechanism through which schools capital funding is received.
- 6.5 The prudential borrowing of £3m per annum, previously included in the Learning & Skills capital programme for school amalgamations to be financed from Learning & Skills revenue has been removed from the programme as it is no longer affordable. This programme will now be financed from the increase in grant received and from the disposal of surplus school assets.
- 6.6 The allocations have been built into the Learning & Skills capital programme (see Appendix 2) and will be allocated to specific schemes based on school priorities as determined by the Learning & Skills Capital Board and will be reported through the monthly Capital Monitoring reports.

Local Transport Plan

- 6.7 Department of Transport confirmed Highways Maintenance and Integrated Transport allocations for 2011/12 and 2012/13 and indicative allocations for 2013/14 and 2014/15. These allocations have remained unchanged and are summarised in Table 2.

Table 2: Department of Transport LTP allocations

2011/12 (£)	Grant	2012/13 Confirmed (£)	2013/14 Indicative (£)	2014/15 Indicative (£)
13,518,000	Highways Maintenance	13,096,000	12,712,000	11,973,000
1,855,000*	Integrated Transport	1,696,000	1,696,000	2,385,000
15,373,000	Total	14,792,000	14,408,000	14,358,000

*The Council received an additional increase of £265,000 under Integrated Transport block in 2011/12 in year.

- 6.8 The allocations have been provisionally split by programme areas in Appendix 2, but this will be subject to review and an updated LTP report will be presented to Cabinet in March 2012.

Disabled Facilities Grants

- 6.9 Department of Communities and Local Government have not confirmed Disabled Facilities Grant allocations for 2012/13, but the allocation is assumed to be inline with the 2011/12 allocation of £1,081,000, based on the total funding available nationally. Any change to this allocation will be reported through the monthly Capital Monitoring report. The Council will prioritise the allocation of grant to manage demand within the available grant.

Adult Social Services

- 6.10 As part of the 2011/12 settlement Department of Health made a provisional allocation for Shropshire of £732,118 for 2012/13. This has now been updated and the revised allocation is £734,463. This will be allocated to schemes based on service priorities and to deliver schemes that will generate on-going revenue savings.

Housing Revenue Account (HRA)

- 6.11 Under the new self-financing regulations that come into effect from 2012/13 the Council has a 5-year transitional period to implement component-based depreciation for the HRA. Once implemented, this will be used to determine the level of capital investment required in the housing stock. As allowed in the transitional period, for 2012/13 the Council will use the baseline Major Repairs Allowance (MRA) figure of £2,716,845 in the HRA self-financing determination for Shropshire as the allocation for capital investment in 2012/13.

Travellers Grant

- 6.12 The Council has been successful in an application to Home & Communities Agency for funding for providing additional pitches at three sites; the funding of £1.1m has been built into the capital programme in 2012/13.

Broadband

- 6.13 As approved by Cabinet (16 November 2011) the Council has received funding of £8.2m for improving broadband across Shropshire. This has been built in to the capital programme across 2012/13 to 2014/15 and will be matched by Council resources (see 7) and private funding.

7. Corporately Financed capital schemes

- 7.1 In accordance with the over-riding principles of the capital strategy to ensure the programme is priority led, particularly in terms of the need for growth in the local economy and flourishing local communities and that the revenue costs of the programme are affordable; corporately financed schemes have been reviewed to re-cast the capital programme for 2012/13 onwards.

- 7.2 The review of the capital programme identified five broad categories into which the current corporately financed schemes in the capital programme fall. The categories are as follows:

1. Schemes in progress/committed to that are not feasible to stop. However, with schemes in this category there were some schemes where delivery schedules would allow some of the funding to be re-profiled to later years.

2. Schemes that could be re-profiled for delivery in later years.
 3. Schemes that were no longer a high priority or were not delivering the outcomes expected and thus could be removed from the capital programme or level of funding reduced.
 4. Schemes for which potential sources of alternative funding available that would replace the need for the scheme to be financed from corporate resources.
 5. New priority areas where new schemes are required within the capital programme.
- 7.3 Appendix 1 summarise the Corporately Financed schemes as per the Period Nine Capital Monitoring report and proposed changes to be made to the capital programme for 2012/13 onwards capital programme.
- 7.4 The significant changes to the capital programme are summarised below:
- Increased Council funding of £6.2m for broadband.
 - £1.1m over the next three years to provide a new burial site in Shrewsbury.
 - £1m over the next four years towards a new Shropshire Small Business Loan Scheme.
 - £2m for depots redevelopment programme, partly financed from self-financed prudential borrowing, the financing costs of which will be met from the saving generated in revenue against the highways contract.
 - £70,000 for Parish Records Digitalisation of records, a scheme that will assist Shropshire Archives in achieving its £60,000 additional income target for 2013/14.
 - Replacement of corporate funding for affordable housing rolling fund with funding from New Homes Bonus, which will also be supported by funding from S106 Agreements and the Community Infrastructure Levy as available.
 - Re-profiling and retuning of funding totalling £950,000 under the Market Towns Revitalisation Programme and Rural Challenge Fund from 2012/13 to 2013/14, to enable the programme to be delivered over a longer period.
 - Reallocation of the Employment and Infrastructure Fund, as no schemes are currently in place and its replacement with other forms of support for economic growth.
 - Removal of the corporate funding for schools fire safety works, the scheme will still be delivered over a longer period financed through schools grant funding.
- 7.5 This changes have resulted in a net increase of £1.8m in corporately financed schemes across the four year term of the capital programme, but have significantly re-profiled expenditure across the years of the programme, providing increased opportunity for receipts to be generated to avoid the requirement for any corporately financed prudential borrowing.

8. Capital Programme 2012/13 to 2015/16

- 8.1 The revised capital programme, following the grant changes and the review of the capital programme is detailed in Appendix 2 and a summary of the programme is provided in Table 3.

Table 3: Capital Programme 2012/13 to 2015/16

2011/12 Budget £	Service Area £	2012/13 Budget £	2013/14 Budget £	2014/15 Budget £	2015/16 Budget £
	General Fund				
4,629,807	Area Directors	2,498,708	23,000	23,000	-
4,655,590	Central Departments	4,658,250	10,195,000	4,700,000	300,000
	Heads of Services				
25,469,703	People	20,400,996	8,063,230	6,020,943	-
30,978,741	Place	37,249,657	21,829,000	17,980,000	1,440,000
65,733,841	Total General Fund	64,807,611	40,110,230	28,723,943	1,740,000
	Housing Revenue Account				
6,257,095	People	4,701,645	2,716,345	3,421,345	-
71,990,936	Total	69,509,256	42,826,575	32,145,288	1,740,000

- 8.2 Based on the capital programme in Table 4, the financing of the capital programme is detailed in Table 4.

Table 4: Capital Programme Financing 2012/13 to 2015/16

2011/12 Budget £	Financing £	2012/13 Budget £	2013/14 Budget £	2014/15 Budget £	2015/16 Budget £
1,200,000	Supported Capital Expenditure	-	-	705,000	-
2,614,348	Self Financed Prudential Borrowing	9,804,574	2,662,000	500,000	-
42,435,301	Government Grants	30,642,140	26,464,943	23,857,943	-
3,170,486	Other Grants	2,355,057	-	-	-
1,557,561	Other Contributions	841,000	-	-	-
3,508,973	Revenue Contributions to Capital	1,510,630	370,000	425,000	300,000
4,813,462	Major Repairs Allowance	2,716,345	2,716,345	2,716,345	-
12,690,805	Corporate Resources (Capital Receipts/ Prudential Borrowing)	21,639,510	10,613,287	3,941,000	1,440,000
71,990,936	Total Financing	69,509,256	42,826,575	32,145,288	1,740,000

9. Capital Receipts

- 9.1 Capital receipt projections are based on current projections of assets to be disposed, the estimated capital receipt they will generate from disposal and the financial year in which the disposal will be completed. There is a high level of risk in these projections as they are subject to changes in property and land values and the actions of potential buyers. Based on the current projected capital receipts and the revised allocated capital receipts (Table 4); Table 5 shows the capital receipts position across the years of the capital programme.

Table 5: Capital Receipts Projections 2012/13 to 2015/16

	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Corporate Resources Allocated in Capital Programme	21,639,510	10,613,287	3,941,000	1,440,000
To be allocated from Ring Fenced Receipts	1,131,228	1,128,600		
Total Commitments	22,770,738	11,741,887	3,941,000	1,440,000
Capital Receipts in hand/projected:				
Estimated carry forward from 2011/12*	6,069,727			
Projected - Green	435,000			
Projected - Amber	3,355,615			
Projected - Red	7,861,972			
Future Years		1,050,000	1,050,000	-
Total in hand/projected	17,722,313	1,050,000	1,050,000	-
Shortfall / (Surplus) to be financed from additional capital receipts / Prudential Borrowing	5,048,425	10,691,887	2,891,000	1,440,000

* Dependant on outturn position 2011/12, capital receipts generated 2011/12 and financing of capitalised redundancies.

9.2 The above capital receipt projections for 2012/13 are based on current profiled disposals for 2012/13. These are disposals that are currently actively being progressed. In addition there are a number of properties that have been identified for potential disposal and are subject to the properties being released by current users and being approved for disposal. Identification of further assets for disposal, including those with associated revenue running costs will help ensure the Council meets its accommodation savings target within the revenue financial strategy. A further report on Asset Disposals will be brought forward for consideration in March 2012.

9.3 If the Council cannot generate the required level of capital receipts, the Council will need to further reduce or re-profile the capital programme or undertake prudential borrowing, which will incur revenue costs that are not budgeted in the revenue financial strategy.

10. Self-Financing Prudential Borrowing Schemes

10.1 The capital programme also includes schemes to be financed from self-financed prudential borrowing. The borrowing costs of which will be financed from the revenue savings generated from the schemes. These include savings from schemes relating to the Council's Carbon Management Programme, including the solar PV installations, biomass boilers, carbon management rolling fund and the Virtual Desktop Implementation scheme. Following recent proposed changes to reduce the payments that will be received under Feed in Tariffs (FITs), solar PV schemes may no longer be as profitable as previously identified; however they are still considered a good investment. A further report will be presented to Cabinet in early 2012, once the tenders are received. For the transformation project borrowing, the revenue costs will be financed from future year's transformation revenue budget. For the Highways Depots scheme the revenue costs will be financed from savings generated in future years under the Highways Maintenance contract.

11. **Capital Allowance for Housing Capital Receipts**

- 11.1 The local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to pay into the national housing pool 75% of the capital receipt in relation to the disposal of a council dwelling through Right to Buy and 50% of the capital receipt in relation the disposal of any other interest in Housing Revenue Account (HRA) assets. Any single receipt of less than £10,000 in value is exempt. The other 25% or 50% respectively remains with the Council for investment in other capital projects at the discretion of the Council; this can include either housing or non-housing schemes.
- 11.2 The Council can avoid the pooling payment and therefore maximise funds for Council use by deciding that the capital receipt will be used to provide for affordable housing, including expenditure on the Councils housing stock.
- 11.3 To avoid the pooling requirement for such capital receipts, the Council is required to set a Capital Allowance, which is approved by Full Council. This states that these receipts will be reserved for expenditure on affordable housing and regeneration. The capital allowance once created is then used to reduce the amount which is required to be pooled by offsetting relevant receipts against it. The capital allowance can be increased at any time as approved by Full Council and decreases (“extinguished”) by the amount of capital receipts received and applied to fund qualifying expenditure.
- 11.4 For 2012/13 it is proposed to set a Capital Allowance of £1 million and that capital receipts received will be reserved for expenditure on the council’s housing stock.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Capital Strategy 2011/12 to 2014/15 – Council 15 Feb 2011
Capital Monitoring Report – Period 10 2010/11 – Cabinet 16 March 2011
Capital Monitoring Report – Period 11 2010/11 – Cabinet 13 April 2011
Shropshire Council Carbon Management Programme Revenue from Renewable Energy – Cabinet 11 May 2011
Capital Outturn Report – 2010/11 – Council 23 June 2011
Capital Monitoring Report – Period 3 2011/12 – Cabinet 3 August 2011
Capital Monitoring Report – Period 4 2011/12 – Cabinet 14 September 2011
Shropshire Council Carbon Management Programme: Revenue from Renewable Heat Incentive – Cabinet 14 September 2011
Capital Monitoring Report – Period 5 2011/12 – Cabinet 19 October 2011
Capital Monitoring Report – Period 6 2011/12 – Cabinet 16 November 2011
Capital Monitoring Report – Period 7 2011/12 – Cabinet 16 December 2011
Capital Monitoring Report – Period 8 2011/12 – Cabinet 11 January 2012
Capital Monitoring Report – Period 9 2011/12 – Cabinet 8 February 2012

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Corporately Financed schemes 2012/13 to 2015/16
2. Capital Programme 2012/13 to 2015/16