Shrophire Council	Committee and Date Council 28 February 2013	Item **9** Public

CAPITAL STRATEGY 2013/14 TO 2016/17

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1. Summary

1.1 The purpose of this report is to set the Capital Strategy for the period 2013/14 to 2016/17, based around two over-riding principles:

- The capital programme is priority led, in that it particularly reflects the purpose and priorities of the Council; and
- That the ongoing 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 2013/14 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 £68.4m in 2013/14, as set out in appendix 1.

B. Approve the revised provisional capital programmes of £40.3m for 2014/15, £12.4m for 2015/16, as set out in appendix 1.

C. In accordance with the regulations, to approve a Capital Allowance of £1 million for 2013/14 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.

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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 2013/14 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 2012/13 to 2015/16 was approved by Council 23 February 2012. This included updated allocations of capital grants for 2012/13 to 2015/16 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 2013/14 to 2016/17

6.1 The capital programme report 2012/13 to 2015/16 contained a combination of confirmed and indicative allocations of capital grants. Where the Council has received updated confirmed allocations, 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.

Department of Education – Schools Programme

6.2 At the time of setting the 2013/14 Capital Strategy, the Department of Education have not announced capital allocations for 2013/14. For the basis of this report the estimates included in the previous Capital Strategy have been included. Once the Department of Education announce allocations for 2013/14 and future years, these will be built in to the Learning & Skills capital programme and reported as part of the monthly Capital Monitoring report. Estimates currently included for 2013/14 allocations are summarised in Table 1.

Table 1: Department of Education schools allocations

2012/13 (£)	Grant	2013/14 estimate (£)
1,012,229	Basic Need	
5,419,421	Condition	3,924,363
1,015,580	DFC	1,015,580
7,447,230	**Total**	**4,939,943**

6.3 The 2013/14 estimates include no Basic Need grant, based on previous Learning & Skills funding projections. However, as 2013/14 allocations are being calculated on updated and more extensive data, the Council may now receive some Basic Need funding for 2013/14. The allocations have been provisionally built into the Learning & Skills capital programme (see Appendix 1). The confirmed allocations 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. The Learning & Skills programme will also be increased as capital receipts are generated from the disposal of surplus former schools sites, released following the current school amalgamations. These receipts are ring fenced for investment in schools as previously agreed by Council as part of the amalgamation programme.

Department of Transport - Local Transport Plan (LTP)

6.4 Department of Transport previously issued indicative Highways Maintenance and Integrated Transport allocations for 2013/14 and 2014/15. These allocations have now been confirmed and are summarised in Table 2, together with an additional £3.5m in highways maintenance funding across 2013/14 and 2014/15 announced by the Department of Transport in December 2012.

Table 2: Department of Transport LTP allocations

2012/13 (£)	Grant	2013/14 (£)	2014/15 (£)
13,096,000	Highways Maintenance	12,712,000	11,973,000
	Highways Maintenance – Additional Funding	2,292,000	1,227,000
1,696,000	Integrated Transport	1,696,000	2,385,000
14,792,000	**Total**	**16,700,000**	**15,585,000**

6.5 The allocations have been provisionally split by programme areas in Appendix 1, but this will be subject to review and an updated LTP report will be presented to Cabinet in Spring 2013.

DCLG - Disabled Facilities Grants

6.6 Department of Communities and Local Government have not confirmed Disabled Facilities Grant allocations for 2013/14, but the allocation is assumed to be in line with the 2012/13 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.

Department of Health - Adult Social Services

6.7 As part of the 2013/14 settlement the Department of Health made further provisional allocations to Shropshire of £749,523 for 2013/14 and £764,663 for 2014/15. Provisionally this has been allocated in the programme against Adult Social Care, but the funding in unringfenced and in year a decision will be made as to how this funding can be best used to manage pressures within the capital programme.

Housing Revenue Account (HRA)

6.8 Under the self-financing regulations that came 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, the Council will use the baseline Major Repairs Allowance (MRA) figure in the HRA self-financing determination for Shropshire as the basis for the amount allocated for capital investment in 2013/14 to 2015/16. For this period the MRA figure is around £4m in each year, £3.2m of which will be allocated to Major Repairs Capital works, with the balance retained for New Build capital works (see below) or possible repayment of HRA debt.

6.9 The HRA New Build programme has also been included in the capital programme from 2013/14. This is a £7m programme to provided 62 new homes, of which 37 will be available for rent and 25 for low cost shared ownership. The scheme is scheduled for completion in March 2015 and will be financed from £814,000 in grant from Home & Communities Agency and the remainder from MRA and revenue contributions from the HRA and capital receipts generated from the shared ownership properties.

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 and that the revenue costs of the programme are affordable, corporately financed schemes have been reviewed to re-cast the capital programme for 2013/14 onwards.

7.2 The two previous Capital Strategies have reduced the number of corporately financed schemes to align the programme to available resources and avoid the unaffordable ongoing revenue costs of borrowing to finance the programme. Following these previous reviews there is limited scope to make further savings in the capital programme; especially as given the nature of capital schemes, a number of schemes are ongoing across financial years with contracts in place to deliver these schemes. However, there are opportunities to re-profile areas of the capital programme and in some instances draw down external funding in advance of Council funding, delaying the Council commitment until later years.

7.3 The significant changes to corporately financed schemes in the capital programme for 2013/14 are summarised below:

- £1.5m over the next two years to deliver the Shrewsbury Business Park Phase 2 extension, as approved by Cabinet 12/12/12.
- Re-profiling of Council funding for the Shrewsbury Vision as part of the New Riverside Development to later years, plus the allocation of a further £1m in 2015/16.

- Re-profiling of the Broadband budget to match the latest projection of when spend will be incurred and confirmation that the external funding from BDUK can be drawn down in advance of the Councils match funding to the scheme.
- Savings totalling £2.2m in 2013/14, £0.3m 2014/15 and £0.15m 2015/16. The main areas of savings are from the Market Drayton Inner Relief Road (as agreed by Cabinet 19/12/12) and from savings on completed Economic Development schemes and removal of future year's uncommitted budgets.

7.5 These changes have resulted in a net decrease of £0.13m in corporately financed schemes across the four year term of the capital programme and 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 2013/14 to 2016/17

8.1 The revised capital programme, following the grant changes and the review of the capital programme is detailed in Appendix 1 and a summary of the programme is provided in Table 3.

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

2012/13 Budget £	Service Area £	2013/14 Budget £	2014/15 Budget £	2015/16 Budget £	2016/17 Budget £
	General Fund				
20,717,524	Area Directors	21,272,505	16,568,764	-	-
2,493,206	Central Departments	8,298,737	6,306,270	4,340,000	-
	Heads of Services				
19,172,676	People	14,926,672	6,785,606	-	-
7,971,986	Place	18,781,881	1,692,000	4,790,000	-
50,355,392	**Total General Fund**	**63,279,795**	**31,352,640**	**9,130,000**	**-**
	Housing Revenue Account				
4,934,664	People	5,131,300	8,930,890	3,287,090	-
55,290,056	**Total**	**68,411,095**	**40,283,530**	**12,417,090**	**-**

8.2 Based on the capital programme in Table 3, the financing of the capital programme is detailed in Table 4.

Table 4: Capital Programme Financing 2013/14 to 2016/17

2012/13 Budget £	Financing £	2013/14 Budget £	2014/15 Budget £	2015/16 Budget £	2016/17 Budget £
2,464,706	Self-Financed Prudential Borrowing	9,205,671	874,000	750,000	-
30,038,198	Government Grants	34,305,175	25,788,606	-	-
2,027,488	Other Grants	1,009,669	-	-	-
1,866,098	Other Contributions	877,095	37,534	-	-
2,845,296	Revenue Contributions to Capital	2,677,800	2,496,640	300,000	-
2,716,345	Major Repairs Allowance	3,200,000	5,700,000	3,200,000	-
13,331,925	Corporate Resources (Capital Receipts/ Prudential Borrowing)	17,135,685	5,386,750	8,167,090	-
55,290,056	**Total Financing**	**68,411,095**	**40,283,530**	**12,417,090**	**-**

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

-	**2013/14 £**	**2014/15 £**	**2015/16 £**
Corporate Resources Allocated in Capital Programme	17,135,685	5,386,750	8,187,090
To be allocated from Ring Fenced Receipts	170,000	1,413,200	
Total Commitments	**17,305,685**	**6,799,950**	**8,080,000**
Capital Receipts in hand/projected:			
Estimated carry forward	6,076,203*		6,306,980
Projected - Green	130,979		
Projected - Amber	885,083		
Projected - Red	4,353,538		
Future Years		13,606,930	87,090
Total in hand/projected	**11,445,803**	**13,606,930**	**6,394,070**
Shortfall / (Surplus) to be financed from additional capital receipts / Prudential Borrowing	**5,859,882**	**(6,806,980)**	**1,273,020**

***** Dependant on outturn position 2012/13 and capital receipts generated in 2012/13.

9.2 The above capital receipt projections for 2013/14 are based on current profiled disposals for 2013/14. These are assets that have been approved for disposal and are currently actively being progressed or planned to be marketed in 2013/14 with anticipation that the disposal will be completed in 2013/14. 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. The main areas identified that could come forward in 2013/14 are the sites formerly identified for the housing PFI scheme and any properties that can be released as part of the accommodation rationalisation project.

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. 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 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 2013/14 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. This is based on the maximum anticipated level of receipts that could be generated in 2013/14.

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

Capital Strategy 2012/13 to 2015/16 – Council 23 February 2012
Capital Monitoring Report – Period 10 2011/12 – Cabinet 7 March 2012
Capital Monitoring Report – Period 11 2011/12 – Cabinet 4 April 2012
Capital Outturn Report 2011/12 – Council 19 July 2012
Capital Monitoring Report – Period 3 2012/13 – Cabinet 25 July 2012
Capital Monitoring Report – Period 4 2012/13 – Cabinet 12 September 2012
Capital Monitoring Report – Period 5 2012/13 – Cabinet 17 October 2012
Capital Monitoring Report – Period 6 2012/13 – Cabinet 14 November 2012
Capital Monitoring Report – Period 7 2012/13 – Cabinet 12 December 2012
Capital Monitoring Report – Period 8 2012/13 – Cabinet 16 January 2013
Capital Monitoring Report – Period 9 2012/13 – Cabinet 20 February 2013

Cabinet Member (Portfolio Holder)
Keith Barrow, Leader of the Council.

Portfolio holders

Local Member
All

Appendices

1. Capital Programme 2013/14 to 2016/17