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CAPITAL OUTTURN REPORT – 2012/13

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1. Summary

- 1.1 The purpose of this report is to inform Members of the final outturn position for the Council’s 2012/13 capital programme and the current position regarding the 2013/14 to 2016/17 capital programme taking into account the slippage following the closure of the 2012/13 programme, and any budget increases/decreases for 2013/14 and future years. The report reflects:
- The re-profiled 2012/13 budget of £49.7m and future years capital programme budget;
 - The outturn capital expenditure of £42.3m, representing 85.1% of the re-profiled budget for 2012/13;
 - An underspend of £7.4m, of which £7.37m has been slipped to 2013/14 and the balance of which is no longer required/available to the capital programme; and
 - The current funding of the programme and its future affordability.

2. Recommendations

Council is asked to:

- A. Approve budget variations of £131,011 to the 2012/13 capital programme, detailed in Appendix 1&2a/Table 1 and the re-profiled 2012/13 capital budget of £49.7m.
- B. Approve the re-profiled capital budgets of £78.6m for 2013/14, including slippage of £7.37m from 2012/13; £42.4m for 2014/15 and £16.1m for 2015/16 as detailed in Table 4 and changes in Appendix 2b.
- C. Accept the outturn expenditure set out in appendix 1 of £42,280,455, representing 85.1% of the revised capital budget for 2012/13.

- D. Approve retaining a balance of capital receipts set aside of £12.6m as at 31st March 2013 to generate a Minimum Revenue Provision saving of £496,000 in 2013/14.

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 capital spend within the capital programme for 2012/13 and considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.

5. Background

- 5.1 The capital programme for 2012/13 and future years, was updated as part of the Capital Strategy 2012/13 to 2015/16 report, approved by Council 23 February 2012. This included updated allocations of capital grants and followed a review of internally financed schemes 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. The Council's capital programme is subject to regular review with monitoring reports submitted to Cabinet monthly.

6. Original and latest proposed capital programme for 2012/13

- 6.1 The capital budget for 2012/13 is subject to change, the largest element being slippage from 2011/12 and re-profiling into 2013/14 and future years. In Period 12 there has been a net budget increase of £131,000, compared to the position at Period 11 2012/13. Table 1 summarises the overall movement, between that already approved, and changes in Period 12 that require approval.

Table 1: Revised Capital Programme Period 12 2012/13

Service Area	Agreed Capital Programme - Council 23/02/12 £	Slippage and budget changes approved to Period 11 2012/13 report £	Period 12 changes to be approved £	Revised 2012/13 Capital Programme Period 12 £
General Fund				
Area Directors	2,498,708	17,819,396	30,344	20,348,448
Central Departments	4,658,250	(2,370,044)	0	2,288,206
Heads of Service				
People	20,400,996	(4,489,570)	37,468	15,948,894
Place	37,249,657	(30,789,736)	63,199	6,523,120
Total General Fund	64,807,611	(19,829,954)	131,011	45,108,668
Housing Revenue Account				
People	4,701,645	(129,686)	0	4,571,959
Total	69,509,256	(19,959,640)	131,011	49,680,627

6.2 Full details of all budget changes are provided in Appendix Two A to this report and at scheme level in Appendix 1. There have been no significant changes in this period to the 2012/13 or future year's capital programme.

7. Current Capital Programme and Forecast Outturn

7.1 The capital programme is reviewed on a regular basis to re-profile the budget to reflect the multi-year nature of capital schemes, whereby spend may slip into later years. However, it is possible that a level of underspend or overspend may be experienced against the revised capital budget at outturn. Outturn projections are incorporated into the capital monitor to enhance the monitoring information provided and allow the early identification where schemes are deviating from budget. Table 2 summarises the outturn position by service area for 2012/13.

Table 2: Capital Programme Outturn Position by service area 2012/13

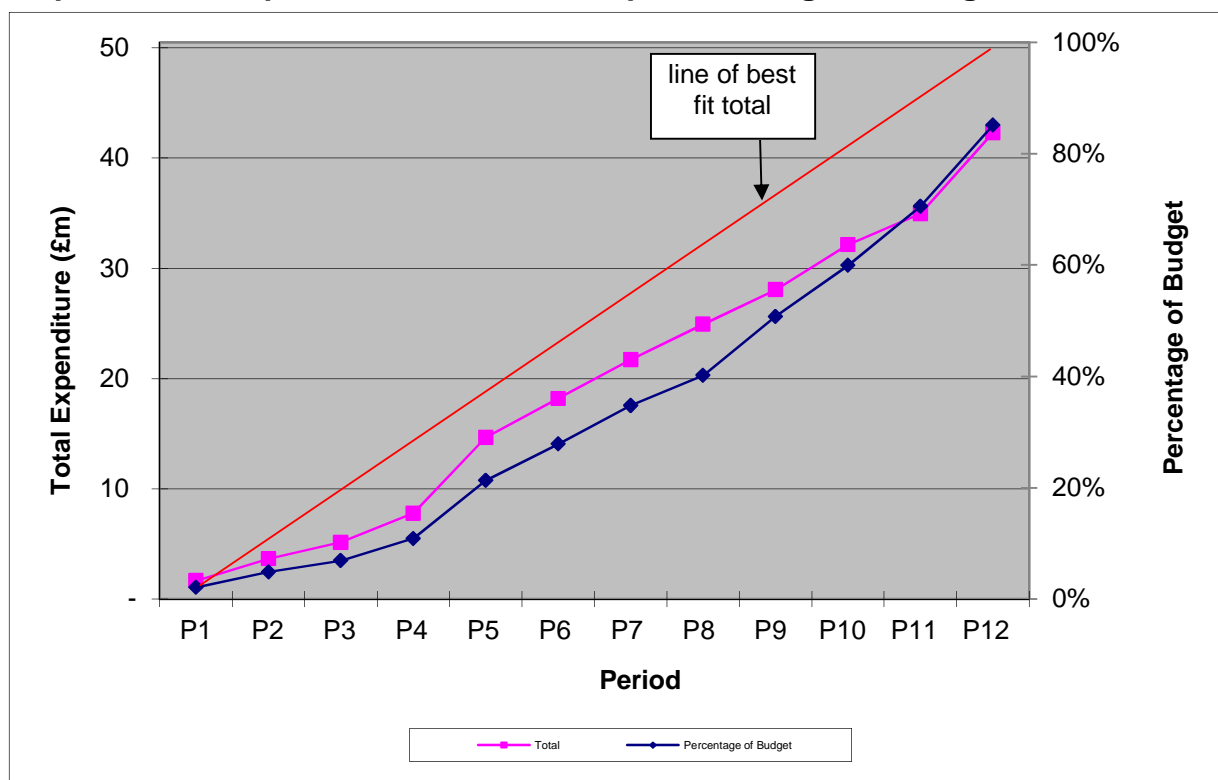
Service Area	Revised capital programme – Outturn 2012/13 £	Actual expenditure 31/03/13 £	Variance £	Spend to budget %
General Fund				
Area Directors	20,348,448	18,635,087	1,713,361	91.6%
Central Departments	2,288,206	1,726,908	561,298	75.5%
Heads of Service				
People	15,948,894	11,831,914	4,116,980	74.2%
Place	6,523,120	5,971,703	551,417	91.5%
Total General Fund	45,108,668	38,165,611	6,943,057	84.6%
Housing Revenue Account				
People	4,571,959	4,114,844	457,115	90.0%
Total	49,680,627	42,280,455	7,400,172	85.1%

7.2 Total capital expenditure for 2012/13 was £42.3m, which equated to 85.1% of the re-profiled capital programme of £49.7m. Full details of expenditure

variance at scheme level are in Appendix 1. A summary of significant variance by service area are provided below.

- 7.3 **Area Directors** – Total underspend against Area Directors capital programme was £1.7m. The most significant area of underspend was £1.3m against the Local Transport Plan (LTP). This was as a result of the previously reported delays in delivering works earlier in the year under the new highways contract, and the weather conditions at the end of the financial year that delayed the undertaking of planned works.
- 7.4 **Central Departments** – The total underspend against Central Departments was £552,000. The major area of underspend was the Transformation Programme of £670,000 due to delays in delivering the schemes as part of this programme. Against the Community Assessment Framework project there was an overspend of £115,000 against the re-profiled budget, this overspend will be financed from the grant funding previously re-profiled to 2013/14.
- 7.5 **People** – The total underspend against the People capital programme was £4.1m. This was spread through-out the different areas of the programme, however, the most significant areas was £1m on the school amalgamations due to delays in releasing the retentions on the stage 1 schemes and early delays on the stage 2 schemes.
- 7.6 **Places** – The underspend against the Places capital programme was £551,000, this was across the overall programme, with no significant areas of underspend.
- 7.7 **Housing Revenue Account** – The Housing Revenue Account underspent by £457,000, this was across the various elements of the programme.
8. ***Actual Expenditure to Date – is the programme being delivered to plan?***
- 8.1 The outturn capital expenditure is £42.3m, which represents 85.1% of the revised outturn capital budget. Graph One below shows actual expenditure by Period and actual expenditure on the total capital programme by Period as a percentage of the total budget.

Graph 1: Total Expenditure and Actual expenditure against budget



9. Financing of the capital programme

9.1 Appendix 1 provides a full summary of the financing of the 2012/13 capital programme. Table 3 summarises the financing sources and changes made to Period 11 2012/13 and to be approved in Period 12.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Prog. - Council 24/02/11 £	Slippage and budget changes approved to Period 11 12/13 £	Period 12 changes to be approved £	Revised 2012/13 Capital Prog. Period 12 £
Government Grants	30,642,140	(1,033,525)	354	29,608,969
Other Grants	2,355,057	(467,407)	8,952	1,896,602
Other Contributions	841,000	879,836	74,242	1,795,078
Major Repairs Allowance	2,716,345	-	-	2,716,345
Revenue Contributions to Capital	1,510,630	1,366,367	205,787	3,082,784
Self-Financed Prudential Borrowing*	9,804,574	(8,013,061)	(151,858)	1,639,655
Corporate Resources (Prudential Borrowing/Capital Receipts) – see 12	21,639,510	(12,691,850)	(6,466)	8,941,194
Total Financing	69,509,256	(19,959,640)	131,011	49,680,627

* Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

10. Projected Longer Term Capital Programme to aid Medium Term Financial Plan

10.1 The updated capital programme for 2013/14 to 2016/17, taking into account slippage from 2012/13 is summarised by year and financing in Table 4 below:

Table 4: Capital Programme 2013/14 to 2015/16

	2013/14 £	2014/15 £	2015/16 £
General Fund			
Area Directors	23,351,318	16,568,764	-
Central Departments	4,175,976	7,484,450	8,041,134
Heads of Services			
People	23,637,771	7,685,918	-
Places	21,366,137	1,692,000	4,790,000
Total General Fund	72,531,202	33,431,132	12,831,134
Housing Revenue Account			
People	6,082,098	8,930,890	3,287,090
Total Approved Budget	78,613,300	42,362,022	16,118,224
Financing			
Government Grants	32,111,475	31,038,232	-
Other Grants	1,068,886	-	-
Other Contributions	1,332,387	37,534	-
Major Repairs Allowance	3,209,905	5,700,000	3,200,000
Revenue Contributions to Capital	4,016,119	3,026,640	300,000
Self-Financed Prudential Borrowing*	10,200,385	874,000	750,000
Corporate Resources (Prudential Borrowing/Capital Receipts)	26,674,143	1,685,616	11,868,224
Total Financing	78,613,300	42,362,022	16,118,224

* Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

10.2 Following the Capital Strategy 2013/14 to 2016/17 report the above programme has been made more affordable by matching capital receipts financing to projected receipts and reducing the potential element of corporately financed prudential borrowing that may be required and the associated ongoing revenue costs. The Corporate Resources financing line above is the element of internal resources through capital receipts and corporately financed prudential borrowing required to finance the programme. See section 11 for the current projected split.

11. Capital Receipts Position

11.1 The current capital programme is reliant on the Council generating capital receipts to finance the capital programme. There is a high level of risk in these projections as they are subject to changes in property and land values, the actions of potential buyers and being granted planning permission on sites. Table 6 below, summarises the current allocated and projected capital receipt position across 2012/13 to 2014/15. A RAG analysis has been included for capital receipts projected in 2013/14, based on the progress in generating them by the end of each financial year. Those marked as green are where contracts have been exchanged, amber are with lawyers to agree exchange and red are on the market or to be sold (pending formal approval), but not

currently under offer. However, no receipts are guaranteed to complete in this financial year as there may be delays between exchanging contracts and completing.

Table 6: Projected capital receipts position

	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Corporate Resources Allocated in Capital Programme	3,087,411	26,674,143	1,685,616	11,868,224
To be allocated from Ring Fenced Receipts	-	150,000	2,487,358	
Total Commitments	3,087,411	26,824,143	4,172,974	11,868,224
Capital Receipts in hand/projected:				
Brought Forward in hand	9,002,207	12,393,574		9,425,776
Generated to 31/03/13	6,478,778			
Projected - Green	-	332,073		
Projected - Amber	-	3,239,389		
Projected - Red	-	7,515,116		
Future Years			13,598,750	137,090
Total in hand/projected	15,480,985	23,480,152	13,598,750	9,562,866
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(12,393,574)	3,343,991	(9,425,776)	2,305,358

- 11.2 Capital receipts of £6.5m have been generated in 2012/13. Please note this is lower than the figure reported at Period 11 of £7.14m, this is due to an accounting reclassification that has resulted in £850,287 that had been previously classified as a capital receipt now been accounted for as a revenue receipt. However, this will not affect the overall affordability of the capital programme as revenue funding can be used to finance capital expenditure. As previously reported, following the re-profiling in the capital programme, sufficient receipts had been generated to finance this year's capital programme without any corporate prudential borrowing. Following the outturn underspend position for the capital programme for 2012/13 and the Council adopting a policy of applying un-ringfenced capital grants in place of capital receipts where they were not required in full by the service area due to scheme underspends. The Council has £12.4m in capital receipts in hand at 31/03/13.
- 11.3 Work is also on-going to identify receipts for 2013/14 and beyond, to bridge the financing gap that currently exists and an initial list of targeted receipts for 2013/14 has been drawn up, but a significant proportion is rated Red in respect of its risk profile.
- 11.4 **Capital receipts set aside** - Shropshire Council originally voluntarily set aside capital receipts £27.3m as at 1st April 2009 to reduce the Council's Capital Financing Requirement (CFR) and generate Minimum Revenue Provision (MRP) savings in 2009/10, as approved by Council December 2009. Following closure of the 2009/10 to 2011/12 capital programmes the Council was able to retain a set aside capital receipt balance to generate further MRP savings in the following financial years.
- 11.5 In the 2013/14 MRP Statement approved by Council February 2013, it was assumed the reduction in the CFR from the capital receipts set aside balance at 1st April 2012 would be offset by the capital expenditure incurred in 2012/13. The 2013/14 MRP Statement also proposed that in the event that

capital expenditure financed from capital receipts in 2012/13 was below the level of capital receipts set aside, the Council would retain the balance in capital receipts set aside to achieve a further MRP saving in 2013/14. Following closure of the 2012/13 programme there is a balance of £12.4m (increase of £3.4 from 31/03/12) that can be set aside and this will generate an MRP saving of £496,000 in 2013/14.

12. Unsupported borrowing and the revenue consequences

- 12.1 The Council can choose what level of unsupported (prudential) borrowing to undertake to fund the capital programme, based on affordability under the prudential code. There is an associated revenue cost to fund the cost of the unsupported borrowing. This consists of the Minimum Revenue Provision (MRP) charge for the repayment of the principal amount, based on the asset life method and the interest charge associated with the borrowing. The current PWLB borrowing rate over 25 years is around 3.8% and is projected to remain at around 3.9% in 2013/14. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.079m (MRP and interest cost) in the following year, reducing by £1,560 each year over the 25 year period. Based on the current capital receipt projections (see section 11), there is currently over £5.66m in unsupported borrowing to be financed corporately, although it is hoped this can be eliminated through the generation of additional capital receipts. Table 7 shows the estimated revenue costs that will be associated with that borrowing, if it is required.

Table 7: Current proposed corporately financed unsupported borrowing in capital programme and ongoing revenue costs for future years

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	Total £
Current proposed unsupported borrowing in capital programme					
Unsupported corporate Borrowing profiled	-	3,343,991	-	2,305,358	5,649,349
Revenue cost					
MRP (Asset life method)	-	-	133,760	133,760	267,519
Interest Cost (4.3%)	-	-	130,416	125,199	255,615
Total annual cost	-	-	264,175	258,959	523,134

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
Capital Strategy 2014/15 to 2016/17 – Council 28 February 2013
Capital Monitoring Report – Period 10 2012/13 – Cabinet 13 March 2013
Capital Monitoring Report – Period 11 2012/13 – Cabinet 17 April 2013

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2012/13
2. Period 12 Budget Variations – a.2012/13, b. 2013/14 onwards