



CAPITAL MONITORING REPORT – QUARTER 1 2016/17

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1. Summary

1.1 The purpose of this report is to inform Members of the current position for the Council's 2016/17 to 2019/20 capital programme taking into account the latest monitoring information on the progress of the schemes, any necessary budget increases and decreases and the re-profiling of budgets between 2016/17 and future years. The report reflects:

- The re-profiled 2016/17 budget of £66m and the future years capital programme budget;
- Expenditure to date of 9% of the revised budget;
- A projected outturn in line with the re-profiled budget of £66m; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve net budget variations of £4.4m to the 2016/17 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £66m. Including new allocations of capital receipt funding as follows:
 - £0.036m for works to a shop unit at Shoplatch.
- B. Approve the re-profiled capital budgets of £43.1m for 2017/18 and £18.8m for 2018/19 and £1.8m for 2019/20 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £5.7m, representing 9% of the revised capital budget for 2016/17, with 25% of the year having elapsed.

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 2016/17 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 2016/17 and future years, was updated as part of the Financial Strategy 2016/17 to 2018/19, approved by Council on 25 February 2016. This included updated allocations of capital grants and a review of and delivery schedule for schemes.

6. Original and latest proposed capital programme for 2016/17

- 6.1 The capital budget for 2016/17 is subject to change, the largest element being slippage from 2015/16 and re-profiling into future years. In Quarter 1 there has been a net budget decrease of £4.4m, compared to the position reported at Outturn 2015/16. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 1 that require approval.

Table 1: Revised Capital Programme Quarter 1 2016/17

Service Area	Agreed Capital Programme - Council 25/02/16	Slippage and budget changes approved to Outturn 15/16	Quarter 1 budget changes to be approved	Revised 2016/17 Capital Programme Quarter 1
General Fund				
Commissioning	36,978,211	8,756,467	(3,400,122)	42,334,556
Adult Services	2,019,000	2,975,142	(493,001)	4,501,141
Public Health	-	-	380,000	380,000
Children's Services	9,303,765	2,194,520	(844,424)	10,653,861
Resources & Support	220,000	234,762	(38,077)	416,685
Total General Fund	48,520,976	14,160,891	(4,395,624)	58,286,243
Housing Revenue Account	7,347,311	366,686	-	7,713,997
Total Approved Budget	55,868,287	14,527,577	(4,395,624)	66,000,240

6.2 Full details of all budget changes are provided in Appendix One to this report. A summary of the significant changes are detailed below:

Budget Increases

- New funding towards the Oxon Link Road (£4.2m 2016/17 to 2019/20), following approval of the Local Enterprise Partnership (LEP) business case. Also inclusion in 2019/20 of the previously reported LEP Broadband monies.
- Additional Environment Agency funding towards flood alleviation schemes at Much Wenlock (£0.32m 2016/17), Shifnal (£0.22m 2018/19) and the Slow the Flow Project (£0.07m 2019/20). .
- New Public Health England funding of £0.38m to be provided as grant funding to Willowdene Farm to extend their facilities.
- New capital receipts allocation of £0.036m for works to a shop unit at Shoplatch which has been vacant for a number of years.

Budget Re-profiling

- In quarter 1 there has been substantial re-profiling of £5.84m, across the programme, based on schemes that will now not be delivered or budget required until 2017/18 or later years; the most significant areas are:
 - **Commissioning:** Re-profile of £3.5m in relation to the refurbishment of Raven Meadows Multi Storey Car park as only design and procurement will be undertaken in 2016/17. Re-profile of £1m allocated to be provided in grant to the Shrewsbury Flaxmill to 2017/18 and 2018/19, based on updated projection of when the funding will be drawn down.
 - **Adult Services:** Re-profiling of £0.47m in relation to the next proposed supporting living bungalow as scheme will not progress in 2016/17 and re-profiling of the £0.023m retention on the London Road supported living bungalow, which will not be payable until 2017/18.
 - **Learning & Skills:** Re-profiling of Basic Need monies of £0.85m not yet allocated to specific schemes as no further new schemes will come forward, that will incur expenditure in 2016/17.

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 for 2016/17.

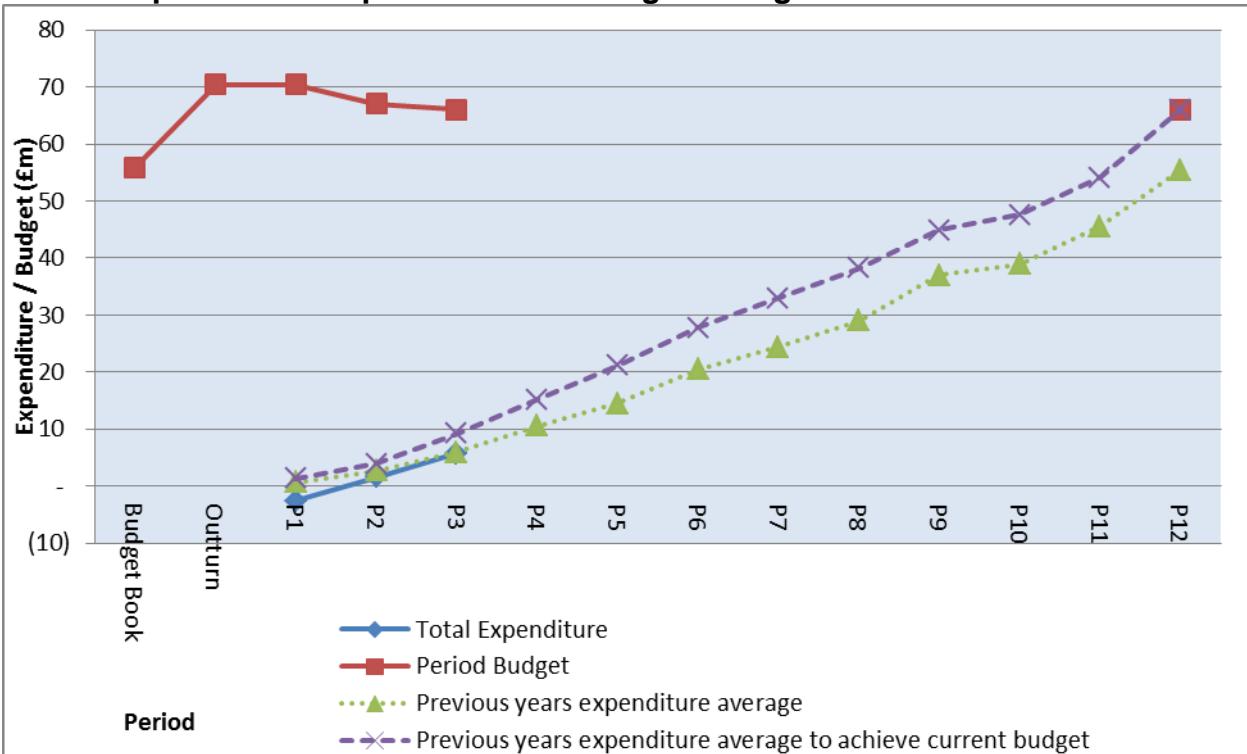
Table 2: Current Capital Programme and Forecast Outturn Quarter 1 2016/17

	2016/17 Revised Capital Programme	2016/17 Forecast Outturn	Variance
General Fund			
Expenditure	58,286,243	58,286,243	0
Financing	(58,286,243)	(58,286,243)	0
Shortfall/(surplus) In Resources	0	0	0
Housing Revenue Account			
Expenditure	7,713,997	7,713,997	0
Financing	(7,713,997)	(7,713,997)	0
Shortfall/(surplus) In Resources	0	0	0

8. Actual Expenditure to Date – *is the programme being delivered to plan?*

- 8.1 The actual capital expenditure at Quarter 1 is £5.7m, which represents 9% of the revised capital budget at Quarter 1, 25% of the year. This is low in comparison to the total budget, but is in line with expenditure at this point in recent years. However, again based on recent years the capital programme has outturned at around 85% of the outturn budget, which on average has been around 20% lower than the Quarter 1 budget, due to further re-profiling later in the year.
- 8.2 This position reflects the programme for the delivery of individual capital schemes within the programme, where generally the majority of expenditure is not evenly distributed across the year and there is a higher concentration of spend profiled later in the financial year, together with a time lag between incurring costs and that being reflected in expenditure. The most significant areas of the programme, Highways and Schools are profiled for significant works over the summer period, which is the optimum time for completing these works. There should also be significant expenditure incurred against the Broadband programme and the HRA phase 2 New Build Programme.
- 8.3 In Quarter 2 there will be full review of the capital programme to re-assess what will be delivered in the capital programme and against the Shropshire Council: Efficiency Strategy and Plan 2016/17 to 2019/20, included in the Financial Strategy 2017/18 – 2019/20 (cabinet 13/07/16). This proposes to use the new flexibilities around the use of Capital Receipts over the 3 year period 2016/17 to 2018/19, for revenue schemes that will generate an ongoing saving to the authority.
- 8.4 Graph One below shows actual expenditure by period and also tracks the period by period changes to the budget.

Graph 1: Total Expenditure and budget changes



9. Financing of the capital programme

- 9.1 Appendix 1 provides a full summary of the financing of the 2016/17 capital programme. Table 3 summarises the financing sources and changes made to Outturn 2015/16 and to be approved to Quarter 1.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 25/02/16	Slippage and budget changes approved Outturn 15/16	Quarter 1 budget changes to be approved	Revised 2016/17 Capital Programme Quarter 1
Self-Financed Prudential Borrowing*	-	-	-	-
Government Grants	26,879,829	8,055,067	1,299,999	36,234,895
Other Grants	-	10,158	101,622	111,780
Other Contributions	426,381	256,603	87,256	770,240
Revenue Contributions to Capital	1,269,659	466,588	8,272	1,744,519
Major Repairs Allowance	5,441,865	239,624	-	5,681,489
Corporate Resources (expectation - Capital Receipts only)	21,850,553	5,499,537	(5,892,773)	21,457,317
Total Confirmed Funding	55,868,287	14,527,577	(4,395,624)	66,000,240

* 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 is summarised by year and financing in Table 4 below:

Table 4: Capital Programme 2017/18 to 2019/20

Service Area	2017/18	2018/19	2019/20
General Fund			
Commissioning	30,583,519	18,772,079	1,770,000
Adult Services	493,000	-	-
Public Health	-	-	-
Children's Services	8,406,576	-	-
Resources & Support	-	-	-
Total General Fund	39,483,095	18,772,079	1,770,000
Housing Revenue Account	3,603,074	-	-
Total Approved Budget	43,086,169	18,772,079	1,770,000
Financing			
Self-Financed Prudential Borrowing*	-	-	-
Government Grants	29,374,146	17,893,000	1,770,000
Other Grants	-	-	-
Other Contributions	4,750	-	-
Revenue Contributions to Capital	250,000	-	-
Major Repairs Allowance	3,603,074	-	-
Corporate Resources (expectation - Capital Receipts only)	9,854,199	879,079	-
Total Confirmed Funding	43,086,169	18,772,079	1,770,000

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

- 10.2 Following the Business Plan and Financial Strategy 2016/17 to 2018/19 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 position.
- 10.3 As per paragraph 8.3 above, the future years programme will also be reviewed, as part of identifying savings that can be used to finance schemes under the new flexibilities around the use of Capital Receipts.

11. Capital Receipts Position

- 11.1 The current capital programme is heavily 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 5 below, summarises the current allocated and projected capital receipt position across 2016/17 to 2018/19. A RAG analysis has been included for capital receipts projected, based on the current likelihood of generating them by the end of each financial year. Those marked as green are where they are highly likely to be completed by the end of the financial year, amber are where they are achievable, but challenging and thus there is a risk of slippage and red are highly unlikely to complete in year and thus there is a high risk of slippage. However, no receipts are guaranteed to complete in this financial year as there may be delays between exchanging contracts and completing.

Table 5: Projected capital receipts position

Detail	2016/17 £	2017/18 £	2018/19 £
Corporate Resources Allocated in Capital Programme	21,457,317	9,854,199	879,079
To be allocated from Ring Fenced Receipts	592,748	5,653,228	-
Total Commitments	22,050,065	15,507,427	879,079
Capital Receipts in hand/projected:			
Brought Forward in hand	16,989,451	2,413,890	
Generated 2015/16 YTD	2,326,073		
Projected - 'Green'	5,148,430	50,000	50,000
Total in hand/projected	24,463,955	2,463,890	50,000
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(2,413,890)	13,043,537	829,079
Further Assets Being Considered for Disposal	3,653,721	15,017,590	100,000

- 11.2 Capital receipts of £17m were brought forward from 2015/16 and £2.3m has been generated in Quarter 1 of 2016/17. A further £5.1m is currently projected as 'Green' for 2016/17. Following the significant re-profiling in the capital programme in Quarter 1 (£5.9m capital receipt financed schemes), based on delivering the revised capital programme and delivering all the receipts profiled as Green for 2016/17; the programme is affordable, and there will be a balance of receipts to carry forward.
- 11.3 There is however considerable work required to realise receipts in future years and in some cases Cabinet/Council approval is required before the receipts profiled for 2017/18 and 2018/19 can be realised. These receipts hold significant risk against delivery and therefore until the plans for disposal against these assets are formally agreed, these will not be included when considering the programmes affordability. On the basis that the current programme for future years is unaffordable, further work is required on the deliverability of the list of assets being considered for disposal. Given that the larger disposals generally take at least between 12 and 18 months to be realised, it is important that work progresses at present, to avoid a funding shortfall in future years.
- 11.4 If the Council cannot generate the required level of capital receipts, the Council will need to further reduce or re-profile the capital programme, some of which will occur naturally as part of the review of the delivery of schemes; or undertake prudential borrowing, which will incur future year's revenue costs that are not budgeted in the revenue financial strategy.
- 11.5 In addition to the agreed capital programme there are a number of significant scheme business cases that are being developed. If these schemes are to progress they will all require some degree of Council funding, which is not currently allocated in the existing capital programme. In addition to this, as reported in 8.2 above, any plans to utilise the new flexibilities around the use of Capital Receipts over the 3 year period 2016/17 to 2018/19, will impact on the availability of receipts to finance the existing capital programme.

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 projected to remain around 3.3% for 2015/16. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.073m (MRP and interest cost) in the following year, reducing by £1,320 each year over the 25 year period. The Council is working towards generating sufficient capital receipts (see section 11); to avoid any unsupported borrowing requirement at lower level of borrowing could also be sustained through internal borrowing against Council balances, removing the need for any new external borrowing.

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

Financial Strategy 2016/17 to 2018/19 – Council 25 February 2016
Capital Outturn Report – 2015/16 – Council 21 July 2016

Cabinet Member (Portfolio Holder)

Malcolm Pate, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2016/17