



<u>Committee and Date</u>
Cabinet
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CAPITAL MONITORING REPORT – QUARTER 2 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 £60.2m and the future years capital programme budget;
- Expenditure to date of 26% of the revised budget;
- A projected outturn in line with the re-profiled budget of £60.2m; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve net budget variations of £5.8m to the 2016/17 capital programme, including cuts to capital receipts funded schemes of £4.4m; detailed in Appendix 1/Table 1 and the re-profiled 2016/17 capital budget of £60.2m.
- 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. Including cuts to capital receipt funded schemes of £4.0m in 2017/18.
- C. Accept the expenditure to date of £15.8m, representing 26% of the revised capital budget for 2016/17, with 50% of the year having elapsed.

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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 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 2 there has been a net budget decrease of £5.8m, compared to the position reported at Quarter 1. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 2 that require approval.

Table 1: Revised Capital Programme Quarter 2 2016/17

Service Area	Agreed Capital Programme - Council 25/02/16	Slippage and budget changes approved to Quarter 2 16/17	Quarter 2 budget changes to be approved	Revised 2016/17 Capital Programme Quarter 2
General Fund				
Place & Enterprise*	36,978,211	5,326,678	(3,031,675)	39,273,214
Adult Services	2,019,000	2,482,141	(1,344,591)	3,156,550
Public Health*	-	826,352	-	826,352
Children's Services	9,303,765	1,350,096	(1,239,191)	9,414,670
Resources & Support*	220,000	(220,000)	-	-
Total General Fund	48,520,976	9,765,267	(5,615,457)	52,670,786
Housing Revenue Account	7,347,311	366,686	(219,393)	7,494,604
Total Approved Budget	55,868,287	10,131,953	(5,834,850)	60,165,390

* Commissioning renamed Place & Enterprise. Brought forward budgets adjusted to reflect change of Council structure: Private Sector Housing transferred from Place & Enterprise (Commissioning) to Public Health and Strategic Asset Services transferred from Resources & Support to Place & Enterprise.

- 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

- Additional Section 106 funding of £0.370m, and revenue contributions from New Homes Bonus monies of £0.234m towards Affordable Housing schemes.
- New allocation of self-financed prudential borrowing for phase 2 purchase of equipment at Market Drayton, Shrewsbury Sports Village and Oswestry Leisure Centre. As approved as part of the phase 1 programme of works and equipment as it is better value for money for the Council to undertake the borrowing, than Shropshire Community Leisure Trust . The revenue costs will be met from the saving generated on the contract subsidy.
- Additional Local Enterprise Partnership (LEP) funding of £0.550m included in the current timeframe of the capital programme, following agreement funding can be brought forward (previously profiled for 2020/21).

Budget Decreases

- Following review of the existing programme and commitments against budget allocations, £8.4m has been removed from the programme. This is summarised below:

Schemes	2016/17 £	2017/18 £
Small Business Loans	437,552	
Shrewsbury Business Park Phase 2 Extension	40,636	
Market Towns Revitalisation - Bridgnorth	7,410	
Oswestry Play & Recreational Improvements	50,000	
Growth Point - Shrewsbury Growth Point / Shrewsbury Vision	1,060,077	
Growth Point - Shrewsbury Vision - New Riverside Development (Raven Meadows Multi-storey car park)	180,000	3,500,000
Social Care - various schemes/unallocated monies	942,345	470,000
Disabled Facilities Grants	402,246	
Learning & Skills - unallocated monies	1,247,449	
Total	4,367,715	3,970,000

The funding saving made against the capital programme will be re-allocated to new schemes, based on business cases submitted to the Investment Board. The focus will be schemes that create revenue generation (or maintain existing revenue streams), invest to save schemes and schemes that create social value.

Budget Re-profiling

- In quarter 2 there has been re-profiling of £1.825m, 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:
 - **Place & Enterprise:** Re-profile of £1.6m to future years against the Broadband – Phase 2 project, based on expected funding drawdown following signing of the contract.
 - **Housing Revenue Account:** Re-profiling of £0.219m of unallocated Major Repairs budget, which will not be required in 2016/17.

7. Current Capital Programme and Forecast Outturn

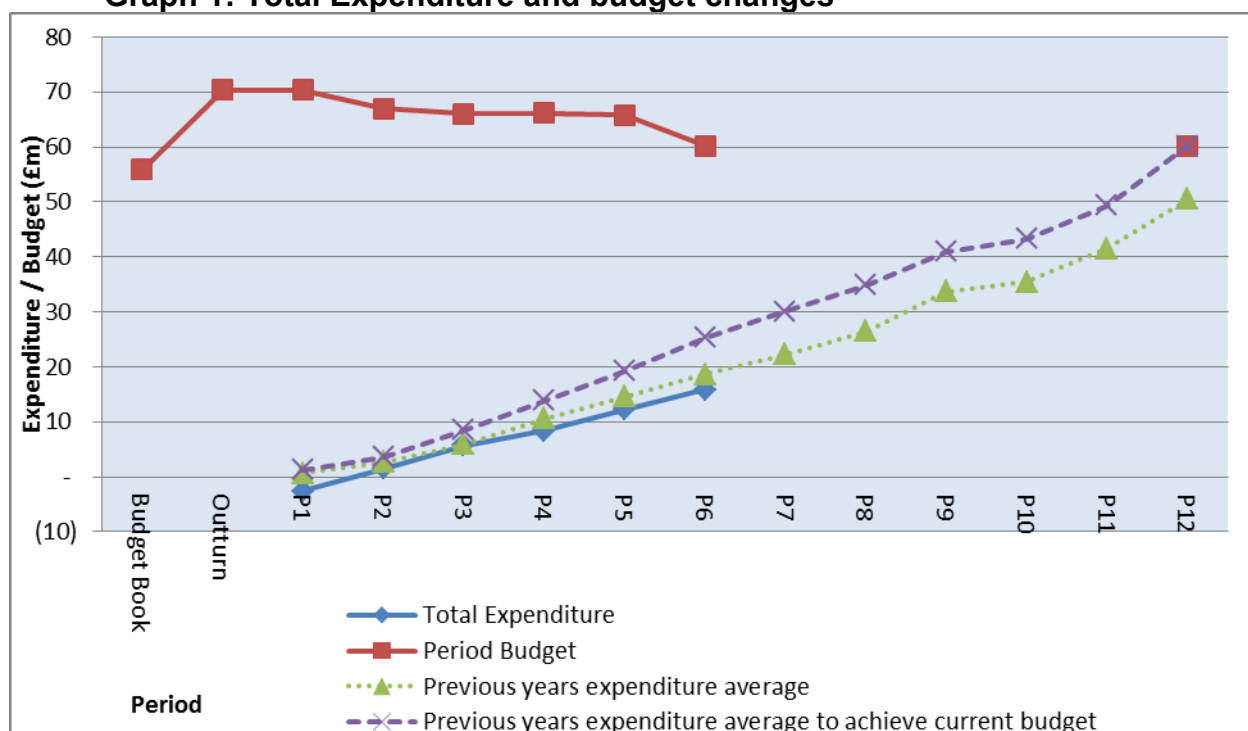
- 7.1 The capital programme is reviewed on a regular basis to re-profile the budget to reflect the multi-year nature of capital schemes, whereby spend may slip into later years. However, it is possible that a level of underspend or overspend may be experienced against the revised capital budget at outturn. 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 2 2016/17

	2016/17 Revised Capital Programme	2016/17 Forecast Outturn	Variance
General Fund			
Expenditure	52,670,786	52,670,786	0
Financing	(52,670,786)	(52,670,786)	0
Shortfall/(surplus) In Resources	0	0	0
Housing Revenue Account			
Expenditure	7,494,604	7,494,604	0
Financing	(7,494,604)	(7,494,604)	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 2 is £15.8m, which represents 26% of the revised capital budget at Quarter 2, 50% of the year. This is low in comparison to the total budget and below expenditure at this point in recent years, despite the funding removed from the programme in Quarter 2. However, again based on recent years the capital programme has outturned at around 85% of the outturn budget, which is also subject to further re-profiling prior to year end.
- 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, due to delays in the contractors submitting invoices. However, based on the current position and previous years, further re-profiling is likely to be required in Quarter 3.
- 8.3 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 Quarter 1 and to be approved to Quarter 2.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 25/02/16	Slippage and budget changes approved Quarter 1	Quarter 2 budget changes to be approved	Revised 2016/17 Capital Programme Quarter 2
Self-Financed Prudential Borrowing*	-	-	-	-
Government Grants	26,879,829	9,355,066	(922,372)	35,312,523
Other Grants	-	111,780	-	111,780
Other Contributions	426,381	343,859	170,000	940,240
Revenue Contributions to Capital	1,269,659	474,860	188,258	1,932,777
Major Repairs Allowance	5,441,865	239,624	-	5,681,489
Corporate Resources (expectation - Capital Receipts only)	21,850,553	(393,236)	(5,270,736)	16,186,581
Total Confirmed Funding	55,868,287	10,131,953	(5,834,850)	60,165,390

* 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			
Place & Enterprise	27,761,594	20,150,444	2,320,000
Adult Services	23,000	-	-
Public Health	250,000	-	-
Children's Services	8,406,576	-	-
Resources & Support	-	-	-
Total General Fund	36,441,170	20,150,444	2,320,000
Housing Revenue Account	3,822,467	-	-
Total Approved Budget	40,263,637	20,150,444	2,320,000
Financing			
Self-Financed Prudential Borrowing*	300,000	-	-
Government Grants	29,748,221	19,271,365	1,636,372
Other Grants	-	-	-
Other Contributions	204,750	-	-
Revenue Contributions to Capital	304,000	-	-
Major Repairs Allowance	3,603,074	-	-
Corporate Resources (expectation - Capital Receipts only)	6,103,592	879,079	683,628
Total Confirmed Funding	40,263,637	20,150,444	2,320,000

* 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.

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 £	2019/20 £
Corporate Resources Allocated in Capital Programme	16,186,581	6,103,592	879,079	683,628
To be allocated from Ring Fenced Receipts	149,648	6,319,150	-	-
Total Commitments	16,336,229	12,422,742	879,079	683,628
Capital Receipts in hand/projected:				
Brought Forward in hand	16,989,451	8,437,725		
Generated 2015/16 YTD	2,764,234			
Projected - 'Green'	5,020,269	350,000	50,000	
Total in hand/projected	24,773,954	8,787,725	50,000	-
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(8,437,725)	3,635,017	829,079	683,628
Further Assets Being Considered for Disposal	4,651,201	15,017,590	550,000	

11.2 Capital receipts of £17m were brought forward from 2015/16 and £2.8m has been generated to Quarter 2 of 2016/17. A further £5m is currently projected as 'Green' for 2016/17. Following the re-profiling in the capital programme in year to date and the funding that has been cut from the programme, there are sufficient capital receipts in hand to finance the existing capital programme. Based on current projections there will also be a significant balance in hand, that can either be allocated to new schemes through the Investment Board or and there will be a balance of receipts to carry forward. Any surplus capital receipts the Council has at the end of 2016/17 can be set aside to generate a one-off revenue MRP saving in 2017/18 and be used to finance the future years capital programme.

11.3 Based on the current position, following the cuts to the programme, across the life of the programme there is significant headroom in capital receipts in-hand/projected and the current expenditure commitments. There is, however, still the requirement to progress the disposals programmed for future years, to ensure they are realised. Considerable work is required to realise these receipts, with generally a lead in in time of at least 12 to 18 months on larger disposals. In addition to the current expenditure commitments, the programme will also grow as new schemes are approved through the Investment Board or as the Council utilises the new flexibilities around the use of Capital Receipts for transformational revenue purposes over the 3 year period 2016/17 to 2018/19.

11.4 It is important that work progresses, to avoid a funding shortfall in future years. Failure to generate the required level of capital receipts will result in the 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.

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

Capital Monitoring Report – Quarter 1 2016/17 – Cabinet 27 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