



<u>Committee and Date</u>
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<u>Item</u>
8
<u>Public</u>

CAPITAL MONITORING REPORT – PERIOD 11 2013/14

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk

Tel: (01743) 255011

1. Summary

1.1 The purpose of this report is to inform Members of the current position for the Council's 2013/14 to 2016/17 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 2013/14 and future years. The report reflects:

- The re-profiled 2013/14 budget of £47.4m and the future years capital programme budget;
- Expenditure to date of 61.2% of the revised budget;
- A projected outturn in line with the re-profiled budget of £47.4m; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve budget variations of £3.4m to the 2013/14 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2013/14 capital budget of £47.4m and the increase in the operating leasing by £0.26m to £1.84m.
- B. Approve the re-profiled capital budgets of £62.2m for 2014/15, £13.5m for 2015/16 and £5.3m for 2016/17 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £33.3m, representing 70.3% of the revised capital budget for 2013/14, with 92% 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 2013/14 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 2013/14 and future years, was updated as part of the Capital Strategy 2013/14 to 2016/17 report, approved by Council 28 February 2013. 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 and an updated Capital Strategy 2014/15 to 2016/17 was approved by Council on 27 February 2014.

6. Original and latest proposed capital programme for 2013/14

6.1 The capital budget for 2013/14 is subject to change, the largest element being slippage from 2012/13 and re-profiling into future years. In Period 11 there has been a net budget decrease of £3.3m, compared to the position reported at Period 10 2013/14. Table 1 summarises the overall movement, between that already approved, and changes for Period 11 that require approval.

Table 1: Revised Capital Programme Period 11 2013/14

Service Area	Agreed Capital Programme - Council 28/02/13	Slippage and budget changes approved to Period 10 13/14	Period 11 budget changes to be approved	Revised 2013/14 Capital Programme Period 11
General Fund				
Commissioning	46,668,987	(13,598,878)	(1,599,909)	31,470,200
Adult Services	1,531,768	(729,147)	(18,029)	784,592
Children's Services	12,139,904	(433,319)	(1,527,135)	10,179,450
Resources & Support	2,939,136	(1,740,253)	(227,680)	971,203
Total General Fund	63,279,795	(16,501,597)	(3,372,753)	43,405,445
Housing Revenue Account	5,131,300	(1,137,127)	1,704	3,995,877
Total Approved Budget	68,411,095	(17,638,724)	(3,371,049)	47,401,322

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:

- Re-profiling totalling £3.5m from 2013/14 to 2014/15 of which £1.8m is against schemes under Commissioning and £1.5m against schemes under Children's Services. This is mainly due to schemes that have been delayed until 2014/15 or grant payments that will now not be drawn down until 2014/15.
- A scheme for new ballot booths for elections. Funded from Corporate Recourses of £43,615 has been added to the programme for 2014/15. This scheme was included in Proposed Future Schemes in appendix 2 of the Capital Strategy 2014/15. The scheme is required on Health & Safety grounds and will generate more income from the hiring out of the booths. This scheme has been brought forward in advance of the other proposed schemes in the Capital Strategy so the Council can benefit from reduced purchasing costs by purchasing alongside a number of other Local Authorities.

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 2013/14.

Table 2: Current Capital Programme and Forecast Outturn Period 11 2013/14

	2013/14 Revised Capital Programme	2013/14 Forecast Outturn	Variance
General Fund			
Expenditure	43,405,445	43,405,445	0
Financing	(43,405,445)	(43,405,445)	0
Shortfall/(surplus) In Resources	0	0	0
Housing Revenue Account			
Expenditure	3,995,877	3,995,877	0
Financing	(3,995,877)	(3,995,877)	0
Shortfall/(surplus) In Resources	0	0	0

- 7.2 The 2013/14 capital programme is currently within the re-profiled budget; however there have been some delays on the delivery of three schemes, which may have implications on the 2014/15 Capital Programme. The scheme details are as follows:
- Whitchurch Civic Centre: the project has been delayed largely due to unforeseen problems around the original construction of the building and the poor weather over the winter; in particular Building Regulation Controls have required us to update fire safety evacuation plans. This has resulted in an overrun from the original date of completion and an increase in costs from the original budget plan. The current forecast cost of Phase 1 of the project is £863,000 which represents an increase of cost of £120,000 from the original budget plan. Officers are actively looking at ways of reducing this cost in the final weeks of the project, and within this forecast are some contingency allowances that will be phased

out over the remaining weeks of the project when all financial risks have been abated.

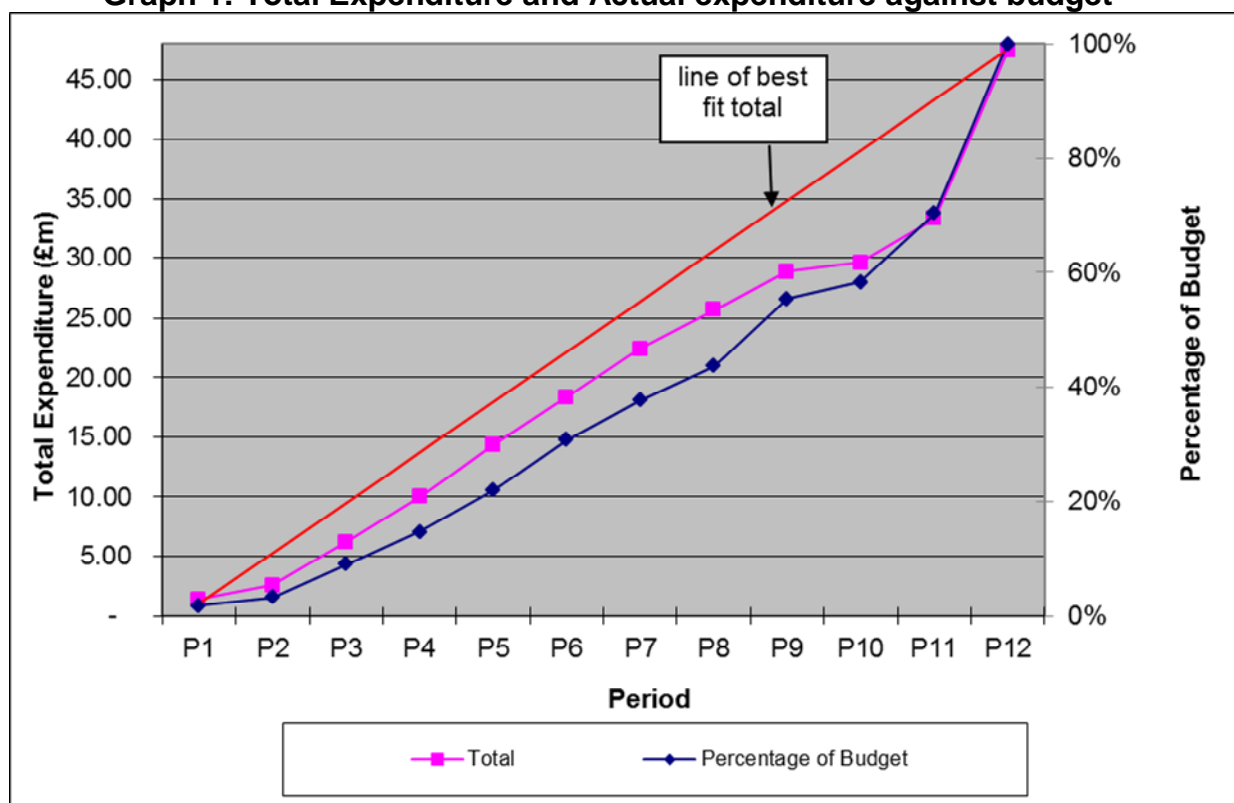
- Shrewsbury Music Hall: As previously reported this project has been delayed, but handover back to Shropshire Council has now been completed and work is under way to prepare for the public opening. The delay in construction has resulted in a final overall budget requirement for the project of £10.7m, some £200,000 over the original budget plan and representing a 2% increase in cost. This budget increase requirement has been met from funding already in Shropshire Council's Capital Programme which has been made available due to other projects completing under budget and is therefore not adding further financial pressure to the Council's Capital Programme. Within this final forecast outturn cost are some contingencies to allow for risks in the final opening stages of the project and during the remaining weeks Officers will look to abate these risks and remove the contingencies.
- Shrewsbury Business Park Phase 2 extension: scheme completion date has been delayed until July due to problems with the diversion of the water mains pipe which runs through the site, which has subsequently delayed contractor completion. The delay in the scheme may also result in an overspend on the final scheme costs; Officers are currently looking at how this can be contained.

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

- 8.1 The actual capital expenditure at Period 11 is £33.3m, which represents 70.3% of the revised capital budget at Period 11, 92% of the year. 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.
- 8.2 As reported at period 10, a review has been performed of the highways capital programme and in particular the type of jobs completed to confirm that these are all of a capital nature. This review has involved summarising each job into specific categories i.e. potholes, footway repairs etc. and obtaining a headline description of the types of jobs performed. From these descriptions, it has been identified that a significant proportion of jobs should potentially have been classified and charged to the revenue budget as they do not meet the definition of capital expenditure:
- “An acquisition or construction of or an enhancement of a non-current asset (tangible and intangible).
- 8.3 Further work has been carried out in period 11 to drill down into the detail of the individual jobs to establish the specific elements of each job, and confirm whether they can be deemed to be of a capital nature. In addition, discussions have been held with Highways Officers and Technicians to ensure that they are clear on the nature of any future jobs they commission so that they can be budgeted appropriately from both revenue and capital.
- 8.4 Following this further work, at period 11 £2.654m against Structural Maintenance of Roads has been identified that needs to be transferred from capital to revenue. However £0.429m has been identified in revenue that can be transferred to capital; making a net adjustment of £2.225m. A further £11,000 of costs have been identified against Integrated Transport schemes

to be transferred from capital to revenue. These adjustments have been included in the reported figures in the Period 11 Monitor.

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 2013/14 capital programme. Table 3 summarises the financing sources and changes made to Period 10 and to be approved in Period 11.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 28/02/13	Slippage and budget changes approved to Period 10 13/14	Period 11 budget changes to be approved	Revised 2013/14 Capital Programme Period 11
Self-Financed Prudential Borrowing*	9,205,671	(9,279,283)	-	(73,612)
Government Grants	34,305,175	(4,998,324)	(1,222,125)	28,084,726
Other Grants	1,009,669	155,664	51,704	1,217,037
Other Contributions	877,095	625,957	(56,089)	1,446,963
Revenue Contributions to Capital	2,677,800	194,475	(101,037)	2,771,238
Major Repairs Allowance	3,200,000	(583,409)	-	2,616,591
Corporate Resources (Capital Receipts/ Prudential Borrowing)	17,135,685	(3,753,804)	(2,043,502)	11,338,379
Total Confirmed Funding	68,411,095	(17,638,724)	(3,371,049)	47,401,322

* 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 2014/15 to 2016/17 is summarised by year and financing in Table 4 below:

Table 4: Capital Programme 2014/15 to 2016/17

Service Area	2014/15	2015/16	2016/17
General Fund			
Commissioning	35,282,683	8,161,557	3,500,000
Adult Services	1,456,575	314,663	-
Children's Services	14,859,223	1,709,784	1,795,273
Resources & Support	546,615	50,000	50,000
Total General Fund	52,145,096	10,236,004	5,345,273
Housing Revenue Account	10,090,890	3,287,090	-
Total Approved Budget	62,235,986	13,523,094	5,345,273
Financing			
Self-Financed Prudential Borrowing*	261,142	-	-
Government Grants	35,630,216	1,709,784	1,795,273
Other Grants	501,327	9,023	-
Other Contributions	404,486	-	-
Revenue Contributions to Capital	3,090,294	311,400	-
Major Repairs Allowance	6,293,314	3,200,000	-
Corporate Resources (Capital Receipts/ Prudential Borrowing)	16,055,207	8,292,887	3,550,000
Total Confirmed Funding	62,235,986	13,523,094	5,345,273

* 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 2014/15 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 5 below, summarises the current allocated and projected capital receipt position across 2013/14 to 2016/17. 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	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Corporate Resources Allocated in Capital Programme	11,338,379	16,055,207	8,292,887	3,550,000
To be allocated from Ring Fenced Receipts	-	1,769,336	1,456,660	1,762,500
Total Commitments	11,338,379	17,824,543	9,749,547	5,312,500
Capital Receipts in hand/projected:				
Brought Forward in hand	12,393,574	8,436,282		
Generated - Year to Date	6,659,390			
Projected - Green	156,696			
Projected - Amber	564,500			
Projected - Red	501			
Future Years - 'Green'		6,307,280	2,380,000	4,000,000
Total in hand/projected	19,774,661	14,743,563	2,380,000	4,000,000
Shortfall / (Surplus) to be financed from Prudential Borrowing	(8,436,282)	3,080,980	7,369,547	1,312,500
Further Assets Being Considered for Disposal		11,608,915	6,836,250	3,595,000

11.2 Capital receipts of £6.66m have been generated in the first eleven months of 2013/14. A further £722,000 is currently being targeted for 2013/14. The majority of this should complete by the end of this financial year as relate to agreed disposals that are due to complete this year. Based on the current capital programme at period 11, there are sufficient receipts in hand to finance the programme without the requirement for any prudential borrowing. Any additional capital receipts generated over and above the required level will be set-aside, enabling the Council to achieve an additional MRP saving in 2014/15.

11.3 The above capital receipt projections for 2014/15 to 2016/17 are based on current scheduled disposals that are profiled for each year. Those listed as Green are where it is rated as 'highly likely' that the disposals will be completed in year. In addition to these there are a number of further disposals that have been identified for potential disposal in future years. 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 is unaffordable, further work is required on the deliverability of the list of assets being considered for disposal.

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 or undertake prudential borrowing, which will incur 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 around 4.6% and is projected to

remain at around 5.0% in 2014/15. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.086m (MRP and interest cost) in the following year, reducing by £1,840 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.

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

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
Capital Outturn Report – 2012/13 – Council 18 July 2013
Capital Monitoring Report – Period 3 2013/14 – Cabinet 24 July 2013
Capital Monitoring Report – Period 4 2013/14 – Cabinet 18 September 2013
Capital Monitoring Report – Period 5 2013/14 – Cabinet 16 October 2013
Capital Monitoring Report – Period 6 2013/14 – Cabinet 13 November 2013
Capital Monitoring Report – Period 9 2013/14 – Cabinet 19 February 2014
Council Business Plan and Financial Strategy 2014 to 2017 – Council 27 February 2014
Capital Monitoring Report – Period 10 2013/14 – Cabinet 12 March 2014

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2013/14