

CAPITAL MONITORING REPORT – QUARTER 3 2014/15

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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 2014/15 to 2017/18 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 2014/15 and future years. The report reflects:

- The re-profiled 2014/15 budget of £66.6m and the future years capital programme budget;
- Expenditure to date of 51.6% of the revised budget;
- A projected outturn in line with the re-profiled budget of £66.6m; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve net budget variations of £3m to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £66.6m. Including new allocations of capital receipt funding as follows:
 - Acquisition - Former Oswestry Health Centre £340,900
- B. Approve the re-profiled capital budgets of £51.5m for 2015/16 and £31.2m for 2016/17 and £19.8m for 2017/18 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £34.4m, representing 51.6% of the revised capital budget for 2014/15, with 75% 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 2014/15 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 2014/15 and future years, was updated as part of the Capital Strategy 2014/15 to 2017/18 report, approved by Council 26 February 2014. This included updated allocations of capital grants and a review of the delivery schedule for schemes.
- 5.2 A further update of the capital programme has been undertaken and an updated Capital Strategy for 2015/16 to 2017/18 is included on this Cabinet agenda as part of the Business Plan and Financial Strategy and will be presented to Council on 26 February 2015 for final approval.

6. Original and latest proposed capital programme for 2014/15

- 6.1 The capital budget for 2014/15 is subject to change, the largest elements being slippage from 2013/14 and re-profiling of slippage into future years. In Quarter 3 there has been a net budget decrease of £3m when compared to the position reported at Quarter 2 2014/15. Table 1 summarises the overall movement between that already approved and changes for Quarter 3 that require approval.

Table 1: Revised Capital Programme Quarter 3 2014/15

Service Area	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved to Quarter 2 14/15	Quarter 3 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 3
General Fund				
Commissioning*	33,394,659	3,769,302	(3,482,331)	33,681,630
Adult Services*	1,419,791	3,694,384	(811,500)	4,302,675
Children's Services	13,173,406	185,052	(2,397,730)	10,960,728
Resources & Support	268,000	2,699,598	4,287,621	7,255,219
Total General Fund	48,255,856	10,348,336	(2,403,940)	56,200,252
Housing Revenue Account	10,090,890	950,592	(599,500)	10,441,982
Total Approved Budget	58,346,746	11,298,928	(3,003,440)	66,642,234

* Adjusted to reflect change of structure to transfer of Housing Health & Wellbeing from Public Protection & Enforcement under Commissioning to Adult Services.

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 budget of £340,900, financed from Corporate Resources for the acquisition of the former Oswestry Health Centre. The site is adjacent to and shares joint access with Avalon Day Centre/LETS Victoria Centre and is an investment to secure the whole site and provide opportunities for additional accommodation to enable consolidation of assets in the town, a site for supported living accommodation or reconfiguration of uses on the Council's current land.
- £578,000 in New Homes Bonus monies to support development of the LEP schemes for Oxon Link Road and Shrewsbury Integrated Transport Package to full business case, as agreed by Cabinet On 10 December 2014.
- £200,000 in funding from the Development Trust in 2015/16 for the Baschurch supported living bungalow.
- £180,000 from reserve for additional costs on the Shrewsbury Music Hall Project. Funding had previously been set aside to cover final settlement negotiations with all contractors involved with the Music Hall project, including both architects and the construction contractor. Negotiations are finalising between officers and contractors to reach this settlement agreement and will be concluded by the end of this financial year. This reserve budget has now been built into the Capital Programme in Q3 to allow the settlements to be concluded and the project to be finalised without any further delay.
- Agreement of the first CIL project, £11,500 in funding to Clive Parish Council for purchase of community amenity land; from over £2m that has been collected in CIL funding since charging commenced in January 2013.

Budget Decreases

- Removal of the budget of £511,000 (across 2014/15 and 2015/16) for refurbishment and adaption works to the Tannery Building, following the decision not to use the property for administrative accommodation.

Budget Re-profiling

- £8.3m has been re-profiled across the programme for schemes that will now not be delivered until 2015/16; the most significant areas are:
 - **Commissioning:** £320k for Hadnall Culvert following delays in acquiring the land, meaning the scheme will now not be completed until 2015/16; £285k for a road resurfacing scheme as part of the severe weather programme that can now not be delivered until 2015/16; £355k on Depots for works that will now be delivered in 2015/16; £100k on small business loans and £32k on MTRP for funds that will now not be drawn down until 2015/16; £468k against Growth Point budget as final settlement will not be until 2015/16 and there are no plans for further expenditure in 2014/15; £284k for affordable housing schemes delayed until 2015/16; and £2.25m profiled in 2014/15 and £2.5m profiled in 2015/16 have been re-profiled to 2016/17 Broadband Project, due to a revised cashflow forecast from BT as to when they will draw down the funding..
 - **Adult Services:** Re-profiling of monies against Telecare call monitoring (£150k) and IT mobile flexible working (£130k) due to delays in implementing the schemes. Reprofiling of £155k on Baschurch Assisted Living Bungalow as scheme will now not commence until May 15, £80k (15/16) and £30k (16/17) on London Road Assisted Living Bungalow as completion not until March 17 and £40k on Market Drayton Development, based on retention not payable until 2015/16.
 - **Children's Services:** Re-profiling of unallocated monies, as it will now not be feasible to deliver further schemes in 2014/15 and budgets for some schemes will now be delivered in 2015/16; split Early Years (£160k), Primary (£556k), Amalgamations (£606k), Secondary (£50k), Condition (£745k), Fire Safety (£73k), Special Education (£122k) and Infant Free School Meals (£150k).

Capital Strategy Changes

Further changes to the capital programme are included in the Strategic Financial Overview - Capital, contained in the Business Plan and Financial Strategy, on this Cabinet agenda. The changes included in this report are summarised below:

- Confirmed new capital grant allocations for future years:

Grant	2015/16 £m	2016/17 £m	2017/18 £m
DfT – Highways Maintenance	16.498	15.124	14.667
DfT – Integrated Transport	1.626	1.626	1.626
NHS – Disabilities Facilities Grant	1.379	TBA	TBA
NHS – Social Care Capital Grant	0.776	TBA	TBA

- New budget of £393,860, financed from Corporate Resources for essential major maintenance works required at Theatre Severn.
- HRA Major repairs programme of £4.137m 2015/16, £3.6m 2016/17 and £3.55m 2017/18, plus £2.6m for the phase 2 new build scheme, financed by the Major Repairs allowance and £1.4m in ring-fenced capital receipts, generated from the disposal of HRA assets.
- Prudential Borrowing of £7.3m (funded by internal borrowing) across 2014/15 to 2016/17 for the purchase and refurbishment of Mardol House.

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 2014/15.

Table 2: Current Capital Programme and Forecast Outturn Quarter 3 2014/15

	2014/15 Revised Capital Programme	2014/15 Forecast Outturn	Variance
General Fund			
Expenditure	56,200,252	56,200,252	0
Financing	(56,200,252)	(56,200,252)	0
Shortfall/(surplus) In Resources	0	0	0
Housing Revenue Account			
Expenditure	10,441,982	10,441,982	0
Financing	(10,441,982)	(10,441,982)	0
Shortfall/(surplus) In Resources	0	0	0

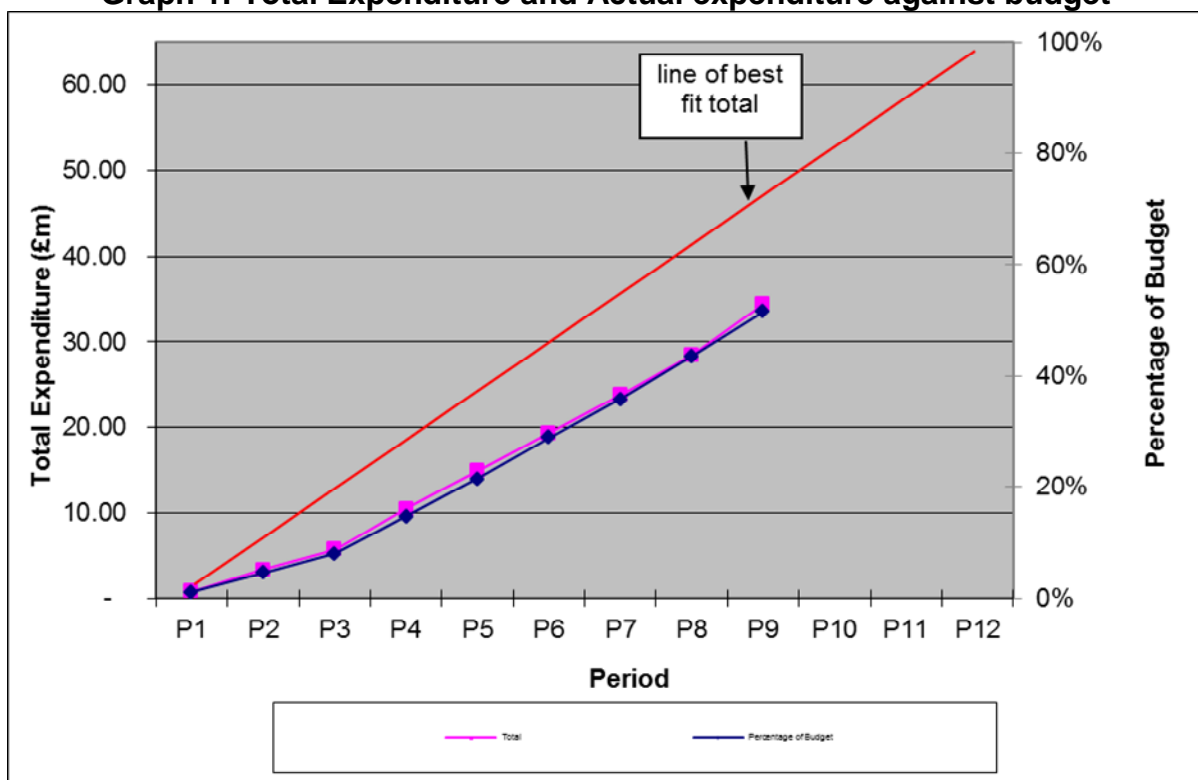
8. Actual Expenditure to Date – *is the programme being delivered to plan?*

- 8.1 The actual capital expenditure at Quarter 3 is £34.4m, which represents 51.6% of the revised capital budget at Quarter 3, 75% of the year. This is low and is behind previous years, where at this stage of the year delivery has been around 58% of the programme. This position partially reflects the programme for the delivery of individual capital schemes within the programme, whereby expenditure is not evenly distributed across the year and there is a higher concentration of spend profiled in the later part of the financial year. In particular, in Highways and Schools, the largest areas of the programme.
- 8.2 A number of further School schemes have been agreed with Premises Services for delivery by the end of the financial year and in this quarter the remaining unallocated monies have been re-profiled to 2015/16 as it is not feasible to deliver further by the end of the financial year.
- 8.3 Under Highways there are still delays in the delivery of works and requests for payments under the Ringway contract. This is contributing to the low level of spend and as a short term measure Highways have tendered out some works in 2014/15. Highways are continuing to work with and put pressure on Ringway to deliver all works ordered and no new works orders (other than emergency works) will now be placed for delivery in 2014/15, as the 3 month lead in period for road permits will not allow these works to be delivered in time.
- 8.4 Other areas where significant expenditure is programmed are the Broadband programme, which is within the revised milestones in the contract; Supported

Living Development in Market Drayton; development of the LEP schemes; Gypsy site redevelopments; acquisition of Mardol House and Oswestry Medical Centre; and the HRA programme, including the new build properties, which are scheduled for completion by March 2015.

- 8.5 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 2014/15 capital programme. Table 3 summarises the financing sources and changes made to Quarter 2 and to be approved to Quarter 3.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved Quarter 2 14/15	Quarter 3 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 3
Self-Financed Prudential Borrowing*	261,142	(112,154)	4,432,233	4,581,221
Government Grants	34,408,091	3,573,547	(1,703,656)	36,277,982
Other Grants	442,303	1,640,416	(91,620)	1,991,099
Other Contributions	382,512	331,445	198,999	912,956
Revenue Contributions to Capital	2,805,294	1,222,452	414,962	4,442,708
Major Repairs Allowance	6,293,314	1,163,212	-	7,456,526
Corporate Resources (expectation - Capital Receipts only)	13,754,090	3,480,010	(6,254,358)	10,979,742
Total Confirmed Funding	58,346,746	11,298,928	(3,003,440)	66,642,234

* 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 2015/16 to 2017/18 is subject to approval as part of the Capital Strategy 2015/16 to 2017/18 report, which is also included on this Cabinet agenda. The proposed programme is summarised by year and financing in Table 4 below:

Table 4: Capital Programme 2015/16 to 2017/18

Service Area	2015/16	2016/17	2017/18
General Fund			
Commissioning	30,587,810	25,345,216	16,293,000
Adult Services	3,740,632	110,000	-
Children's Services	7,777,002	1,795,273	-
Resources & Support	2,856,717	60,430	-
Total General Fund	44,962,161	27,310,919	16,293,000
Housing Revenue Account	6,581,090	3,843,000	3,550,000
Total Approved Budget	51,543,251	31,153,919	19,843,000
Financing			
Self-Financed Prudential Borrowing*	2,658,717	60,430	-
Government Grants	27,101,502	18,577,273	16,293,000
Other Grants	299,023	-	-
Other Contributions	-	-	-
Revenue Contributions to Capital	1,070,745	-	-
Major Repairs Allowance	4,712,856	3,600,000	3,550,000
Corporate Resources (expectation - Capital Receipts only)	15,700,408	8,916,216	-
Total Confirmed Funding	51,543,251	31,153,919	19,843,000

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

- 10.2 Following the Financial Strategy 2015/16 to 2017/18 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 2014/15 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	2014/15 £	2015/16 £	2016/17 £
Corporate Resources Allocated in Capital Programme	10,979,742	15,700,408	8,916,216
To be allocated from Ring Fenced Receipts	-	1,156,000	3,770,927
Total Commitments	10,979,742	16,856,408	12,687,143
Capital Receipts in hand/projected:			
Brought Forward in hand	13,245,785	5,814,214	
Generated 2014/15 YTD	2,865,758		
Projected - 'Green'	682,412	3,289,663	3,000,000
Total in hand/projected	16,793,956	9,103,876	3,000,000
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(5,814,214)	7,752,532	9,687,143
Further Assets Being Considered for Disposal	637,625	10,764,245	3,595,000

- 11.2 Capital receipts of £13.25m were brought forward from 2013/14 and £2.9m has been generated to Quarter 3 2014/15. A further £700k is currently projected as 'Green' for 2014/15. Based on the current programme for 2014/15, there are sufficient receipts in place to finance the existing 2014/15 programme. Any surplus capital receipts the Council can generate in 2014/15 can be set aside at the end of the year to generate a one-off revenue MRP saving in 2015/16 and be used to finance the future years capital programme.
- 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 2015/16 and 2016/17 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. The programme for schemes financed by capital receipts will also be reviewed as part of setting the capital strategy for 2015/16.
- 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.

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 be around 4% for

2015/16. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.08m (MRP and interest cost) in the following year, reducing by £1,600 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. A lower level of borrowing could also be sustained through internal borrowing against available Council balances, removing the need for any new external borrowing.

- 12.2 As per paragraph 6.2 above, the Council will however utilise prudential borrowing of £7.3m for the purchase and refurbishment of Mardol House. This can be financed via internal borrowing against Council balances, avoiding the requirement for new external borrowing. The ongoing revenue costs associated with this internal borrowing are proposed to be financed from the additional income generated by the scheme.

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

Council Business Plan and Financial Strategy 2014 to 2017 – Council 27 February 2014

Capital Monitoring Report – Period 10 2013/14 – Cabinet 12 March 2014

Capital Monitoring Report – Period 11 2013/14 – Cabinet 09 April 2014

Capital Outturn Report – 2013/14 – Council 17 July 2014

Capital Monitor Report – Quarter 1 – Cabinet 30 July 2014

Capital Monitor Report – Quarter 2 – Cabinet 15 October 2014

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2014/15