



<u>Committee and Date</u> Cabinet - 14 October 2015 Performance Management Scrutiny Committee – 21 st October 2015	<u>Item</u> 8 <u>Public</u>
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CAPITAL MONITORING REPORT – QUARTER 2 2015/16

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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 2015/16 to 2018/19 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 2015/16 and future years. The report reflects:

- The re-profiled 2015/16 budget of £62m and the future years capital programme budget;
- Expenditure to date of 23.2% of the revised budget;
- A projected outturn in line with the re-profiled budget of £62m; 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 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £62m. Including new allocations of capital receipt funding as follows:
 - £86k for the Mere warden's bungalow refurbishment.
- B. Approve the re-profiled capital budgets of £40.9m for 2016/17 and £28.1m for 2017/18 and £70k for 2018/19 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £14.4m, representing 23.2% of the revised capital budget for 2015/16, with 42% 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 2015/16 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 2015/16 and future years, was updated as part of the Business Plan and Financial Strategy 2015/16 to 2016/17, approved by Council on 26 February 2015. This included updated allocations of capital grants and a review of and delivery schedule for schemes.

6. Original and latest proposed capital programme for 2015/16

- 6.1 The capital budget for 2015/16 is subject to change, the largest element being slippage from 2014/15 and re-profiling into future years. In Quarter 2 there has been a net budget decrease of £3m, compared to the position reported at Quarter 1 2015/16. 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 2015/16

Service Area	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved to Quarter 1 15/16	Quarter 2 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 2
General Fund				
Commissioning	30,587,810	5,260,051	(1,492,077)	34,355,784
Adult Services	3,740,632	209,288	-	3,949,920
Children's Services	7,777,002	4,648,707	(1,165,923)	11,259,786
Resources & Support	2,856,717	1,969,005	-	4,825,722
Total General Fund	44,962,161	12,087,051	(2,658,000)	54,391,212
Housing Revenue Account	6,581,090	1,331,937	(319,913)	7,593,114
Total Approved Budget	51,543,251	13,418,988	(2,977,913)	61,984,326

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 £86,233, financed from Corporate Resources for the Mere wardens bungalow refurbishment, where Countryside will relocate to, following the disposal of the depot site.
- Additional Environment Agency funding has been received for the Shifnal (£0.175m), Church Stretton (£0.035m), Much Wenlock (£0.602m) and Individual Property Protection (£0.112m) Flood & Water Management Schemes.

Budget Decreases

- Removal of contingency budget (£0.220m) from New Build Phase 1 scheme following completion of the scheme within budget.

Budget Re-profiling

- £2.9m has been re-profiled across the programme for schemes that will now not be delivered until 2016/17; the most significant areas are:
 - **Commissioning:** £0.550m under Structural Maintenance of Bridges & Structures following delays in the Hadnall Culvert scheme that will now not be delivered this year. £0.353m relating to Flood & Water Management schemes for Shifnal and Much Wenlock as works will now not be delivered until 2016/17; partly offset by bringing the Grove, Minsterley scheme forward to 2015/16. £0.246m on highways depots, pending a review of salt dome provision; £0.400m Infrastructure & Growth - Growth Point under the Shrewsbury Vision schemes; and £0.100m of unallocated Affordable Housing monies as no scheme is now likely to come forward this financial year.
 - **Learning & Skills:** £0.166m has been re-profiled against 2 primary school schemes that will now not be delivered until 2016/17. £1m has been re-profiled against the DFC budget, based on the current level of expenditure by schools.
 - **Housing Revenue Account:** £0.100m has been re-profiled against the phase 1 new build budget for the retention payment, which will now not be payable until 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 2015/16.

Table 2: Current Capital Programme and Forecast Outturn Quarter 2 2015/16

	2015/16 Revised Capital Programme	2015/16 Forecast Outturn	Variance
General Fund			
Expenditure	54,391,212	54,391,212	0
Financing	(54,391,212)	(54,391,212)	0
Shortfall/(surplus) In Resources	0	0	0
Housing Revenue Account			
Expenditure	7,593,114	7,593,114	0
Financing	(7,593,114)	(7,593,114)	0
Shortfall/(surplus) In Resources	0	0	0

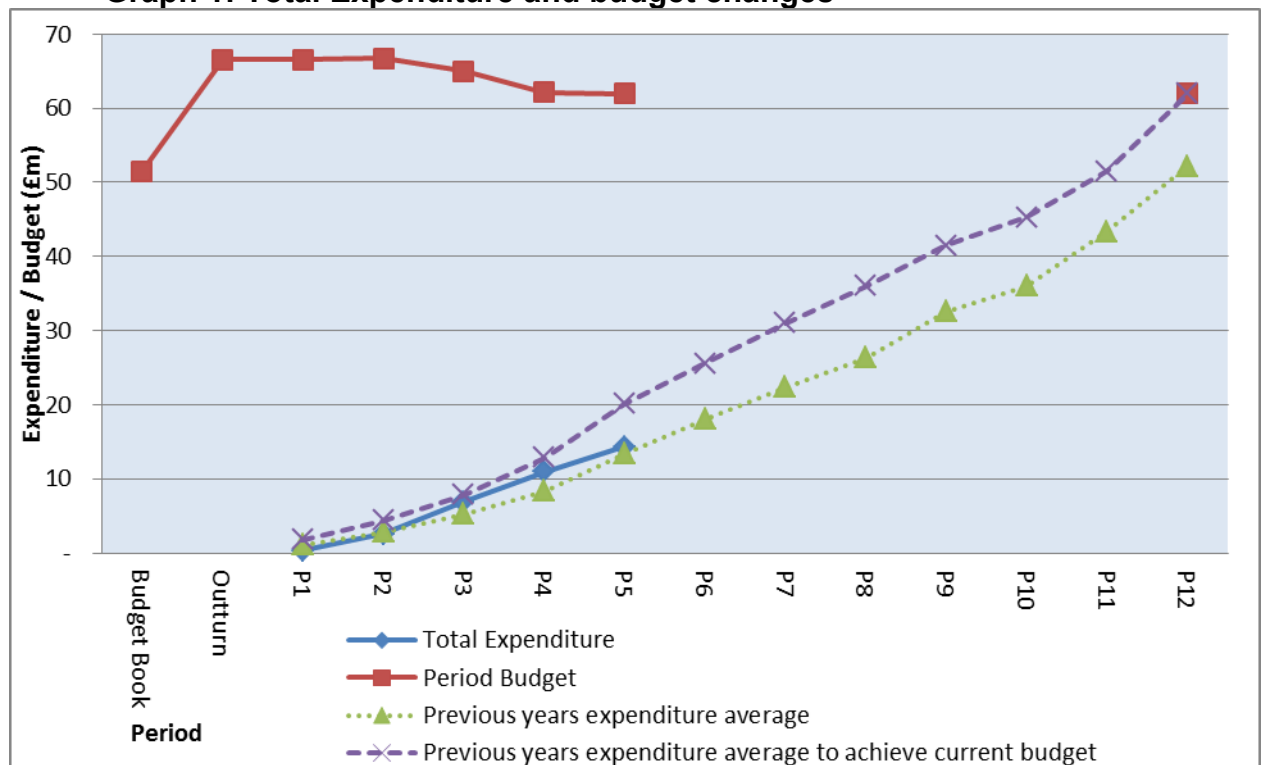
8. Actual Expenditure to Date – *is the programme being delivered to plan?*

- 8.1 The actual capital expenditure at Quarter 2 (to Period 5) is £14.4m, which represents 23.2% of the revised capital budget at Period 5, 42% of the year. This is low in comparison to the total budget, but is in line with expenditure at this point in recent years. This position reflects the programme for the delivery of individual capital schemes within the programme, with significant expenditure to Period 5 on the Mardol House Student Accommodation project for opening in September; but 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.
- 8.2 The programme will continue to be monitored throughout the year and re-profiled accordingly and as per section 6 there has already been some re-profiling within the programme.
- 8.3 The highways programme remains rated 'Amber', as delays continue to be experienced in the delivery and requests for payments under the Ringway contract; although the actual level of works delivered is above the current level of expenditure, due to delays in Ringway submitting payment requests. The programme continues to be monitored closely and a level of over programming has been built into programme, to try to maximise the programme delivered. The major resurfacing works have been tendered outside the contract to ensure these works are delivered and there are further schemes that can be instructed on, if there is sufficient capacity within the budget. A further comprehensive review of the delivery of the programme will take place in the Autumn, to enable, if required, further schemes to be instructed, within road permitting time frames.
- 8.4 With regards the other areas reported at Quarter 1. Investigation and monitoring works continue at Mytton Oak Remembrance Park to resolve the surface water drainage issues. A decision is still required as to what level of funding the Council wishes to provide to any future Small Business Loans scheme, and thus it is still rated as 'Amber'. The Growth Point programme has been reviewed as to what will be delivered in 2015/16 and the remaining budget re-profiled to 2016/17.
- 8.5 The review of the Adult Services programme is ongoing. As well as reviewing the existing programme, this also includes the identification of priority

schemes for future years from across the service, including schemes that will generate revenue savings; to formulate a longer term programme.

- 8.6 The Summer period saw the delivery of a major element of the Learning & Skills programme, however, this is still yet to be reflected in expenditure, due to the time lag in the payment process. There has been some re-profiling of DFC monies and for schemes that have been delayed until next year and the programme continues to be monitored on an ongoing basis.
- 8.7 A significant element of the HRA programme is the New Build Phase 2, the budget has been profiled based on initial cash flow projections; however, this may need to be revised once the contract is issued and works commence, which is likely to be in Quarter 3.
- 8.8 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 2015/16 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 26/02/15	Slippage and budget changes approved Quarter 1 15/16	Quarter 2 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 2
Self-Financed Prudential Borrowing*	2,658,717	453,212	-	3,111,929
Government Grants	27,101,502	6,335,116	(1,346,185)	32,090,433
Other Grants	299,023	346,598	180	645,801
Other Contributions	-	270,499	205,469	475,968
Revenue Contributions to Capital	1,070,745	1,893,192	(155,476)	2,808,461
Major Repairs Allowance	4,712,856	1,064,901	(220,000)	5,557,757
Corporate Resources (expectation - Capital Receipts only)	15,700,408	3,055,470	(1,461,901)	17,293,977
Total Confirmed Funding	51,543,251	13,418,988	(2,977,913)	61,984,326

* 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 2016/17 to 2018/19

Service Area	2016/17	2017/18	2018/19
General Fund			
Commissioning	29,872,724	16,834,000	70,000
Adult Services	660,000	-	-
Children's Services	6,394,182	7,666,783	-
Resources & Support	60,430	-	-
Total General Fund	36,987,336	24,500,783	70,000
Housing Revenue Account	3,942,913	3,550,000	-
Total Approved Budget	40,930,249	28,050,783	70,000
Financing			
Self-Financed Prudential Borrowing*	60,430	-	-
Government Grants	24,129,829	21,800,999	70,000
Other Grants	-	-	-
Other Contributions	191,535	-	-
Revenue Contributions to Capital	470,000	250,000	-
Major Repairs Allowance	3,600,000	3,550,000	-
Corporate Resources (expectation - Capital Receipts only)	12,478,455	2,449,784	-
Total Confirmed Funding	40,930,249	28,050,783	70,000

* 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 2015/16 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 position.

- 10.3 In addition to the above future years programme, Members have also provisionally approved the business cases and financing for the LEP schemes for the Oxon Link Road and the Shrewsbury Integrated Transport Package and for the Phase 2 student accommodation scheme on the Tannery site. These are not included in the above figures as will not be built into the capital programme until the business cases are approved, the external funding confirmed for the LEP schemes and the delivery programme and how the funding will be drawn down has been agreed on the Tannery scheme.

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 2015/16 to 2017/18. 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	2015/16 £	2016/17 £	2017/18 £
Corporate Resources Allocated in Capital Programme	17,293,977	12,478,455	2,449,784
To be allocated from Ring Fenced Receipts	-	5,401,657	-
Total Commitments	17,293,977	17,880,112	2,449,784
Capital Receipts in hand/projected:			
Brought Forward in hand	14,106,162	28,081	
Generated 2015/16 YTD	1,303,312		
Projected - 'Green'	1,912,584	3,033,350	800,000
Total in hand/projected	17,322,058	3,061,431	800,000
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(28,081)	14,818,681	1,649,784
Further Assets Being Considered for Disposal	6,222,945	11,125,900*	5,395,000*

* Plus any not completed from 2015/16.

- 11.2 Capital receipts of £14.1m were brought forward from 2014/15 and £1.3m has been generated in the first 5 periods of 2015/16. A further £1.9m is currently projected as 'Green' for 2015/16. This would be sufficient to meet the current profiled programme for 2015/16.
- 11.3 In addition to those projected as 'Green', there are a number of further disposals that have been identified for potential disposal. These receipts hold significant risk against delivery and therefore until the plans for disposals 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 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.

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 just under 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 at lower level of borrowing could also be sustained through internal borrowing against Council balances, removing the need for any new external borrowing.
- 12.2 Council approved borrowing of £7.5m for the purchase and refurbishment of Mardol House. This has been financed via internal borrowing against Council balances, avoiding the requirement for new external borrowing and the ongoing revenue costs of the borrowing will 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)

Business Plan and Financial Strategy 2015/16 to 2016/17 – Council 26 February 2015

Capital Outturn Report – 2014/15 – Council 23 July 2015

Capital Monitoring Report – Quarter 1 2015/16 – Cabinet 29 July 2015

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2015/16