Shropshire Council

Committee and Date
Cabinet
10 February 2016

CAPITAL MONITORING REPORT – QUARTER 3 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 £51.4m and the future years capital programme budget;
- Expenditure to date of 59.5% of the revised budget;
- A projected outturn in line with the re-profiled budget of £51.4m; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

A. Approve net budget variations of £10.6m to the 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £51.4m. Including new allocations of capital receipt funding as follows:
- £0.379m for the installation of Solar PV on 4 corporate buildings.
- £0.942m for the HRA new build phase 2 programme, financed from ring-fenced receipts from the disposal of HRA assets.
- Re-allocation of small business loan scheme repayments (£0.155m) for future use as a small business loan scheme to sustain support to businesses, as agreed by Cabinet 09/12/15

B. Approve the re-profiled capital budgets of £55.9m for 2016/17 and £30.9m for 2017/18 and £15.7m for 2018/19 as detailed in Appendix 1/Table 4.

C. Accept the expenditure to date of £30.6m, representing 59.5% of the revised capital budget for 2015/16, with 75% 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 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.

5.2 A further update of the capital programme has been undertaken and an updated Capital Strategy for 2016/17 to 2018/19 is included on this Cabinet agenda as part of the Business Plan and Financial Strategy and will be presented to Council on 25 February 2016 for final approval.

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 3 there has been a net budget decrease of £10.6m, compared to the position reported at Quarter 2 2015/16. 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 2015/16

Service Area	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved to Quarter 2 15/16	Quarter 3 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 3
General Fund				
Commissioning	30,587,810	3,767,974	(4,050,940)	30,304,844
Adult Services	3,740,632	209,288	(1,359,000)	2,590,920
Children's Services	7,777,002	3,482,784	(2,911,538)	8,348,248
Resources & Support	2,856,717	1,969,005	118,759	4,944,481
Total General Fund	**44,962,161**	**9,429,051**	**(8,202,719)**	**46,188,493**
Housing Revenue Account	6,581,090	1,012,024	(2,391,491)	5,201,623
Total Approved Budget	**51,543,251**	**10,441,075**	**(10,594,210)**	**51,390,116**

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 budgets totalling £378,629, financed from Corporate Resources for the installation of Solar PV on 4 corporate buildings. The implementation of these schemes will generate energy savings and a Feed-in-Tariff income stream for the Council for 25 years
- The budget for the HRA New Build Phase 2 scheme has increased by £1.2m, following the increase in the build programme to 31 properties and following the issuing of the contract. The increase is financed £0.274m in HCA grant and £0.942m in ring-fenced receipts from the disposal of HRA assets.
- Section 106 funding towards the restoration of the Old Rectory, Whitchurch (£0.25m) Broseley BMX & Outdoor Gym (£0.04m), School Condition scheme (£0.033m) and Affordable Housing grants (£0.045m).
- Re-allocation of small business loan scheme repayments (£0.155m) for future use as a small business loan scheme to sustain support to businesses, as agreed by Cabinet 09/12/15.

Budget Decreases

- Removal of capital receipt funding for 2 school solar PV schemes that are no longer proceeding (£0.1m) and following final settlement on a scheme under budget (£0.04m).

Budget Re-profiling

- In quarter 3 there has been substantial re-profiling of £11.5m, across the programme, based on schemes that will now not be delivered or budget required until 2016/17 or later years; the most significant areas are:
  - **Commissioning**: £0.960m under Highways & Transport due to the ongoing delays in delivering schemes and retention payments not due until 2016/17. £0.379m on LEP schemes following confirmation of the main LEP grant and that this funding can be used in advance of Council monies. £0.350m of monies allocated to Small Business Loans, pending development of a new loan scheme. £1.845m against the Broadband programme due to delays due to the road permitting scheme and with contractors submitting their invoices to

BT, delaying their claims to the Council; but the project remains on overall delivery schedule.

- **Adult Services**: £0.959m of monies allocated to Adult Social Care schemes, which will now not be delivered until 2016/17. £0.400m of monies for Disabled Facilities Grants, based on expected drawdown in financial year, from level of expenditure/ commitments in the system.
- **Learning & Skills**: £2.9m relating to schemes which can now not be delivered until 2016/17 and unallocated monies that will not be allocated to deliverable schemes this financial year.
- **Housing Revenue Account:** £1.5m has been re-profiled based on slippage to the Major Repairs Programme. £1.160m has been re-profiled against the New Build Phase 2 budget, based on agreed cash flow forecast with contractor, who has now commenced on site.

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 2016 - 2019, also on this Cabinet agenda. The changes included in this report are summarised below:

- Inclusion of indicative 2018/19 Department for Transport Highways funding for maintenance (£13.275m) and Integrated Transport (£1.626m).
- £6m (across 2015/16 to 2018/19) in Local Enterprise Partnership (LEP) for the Shrewsbury Integrated Transport Package. The scheme will include a number of measures aimed at alleviating congestion and improving town centre pedestrian areas. The scheme will be supplemented by funding from the annual Integrated Transport allocation and developers contributions through Community Infrastructure Levy and Section 106 contributions.

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 3 2015/16

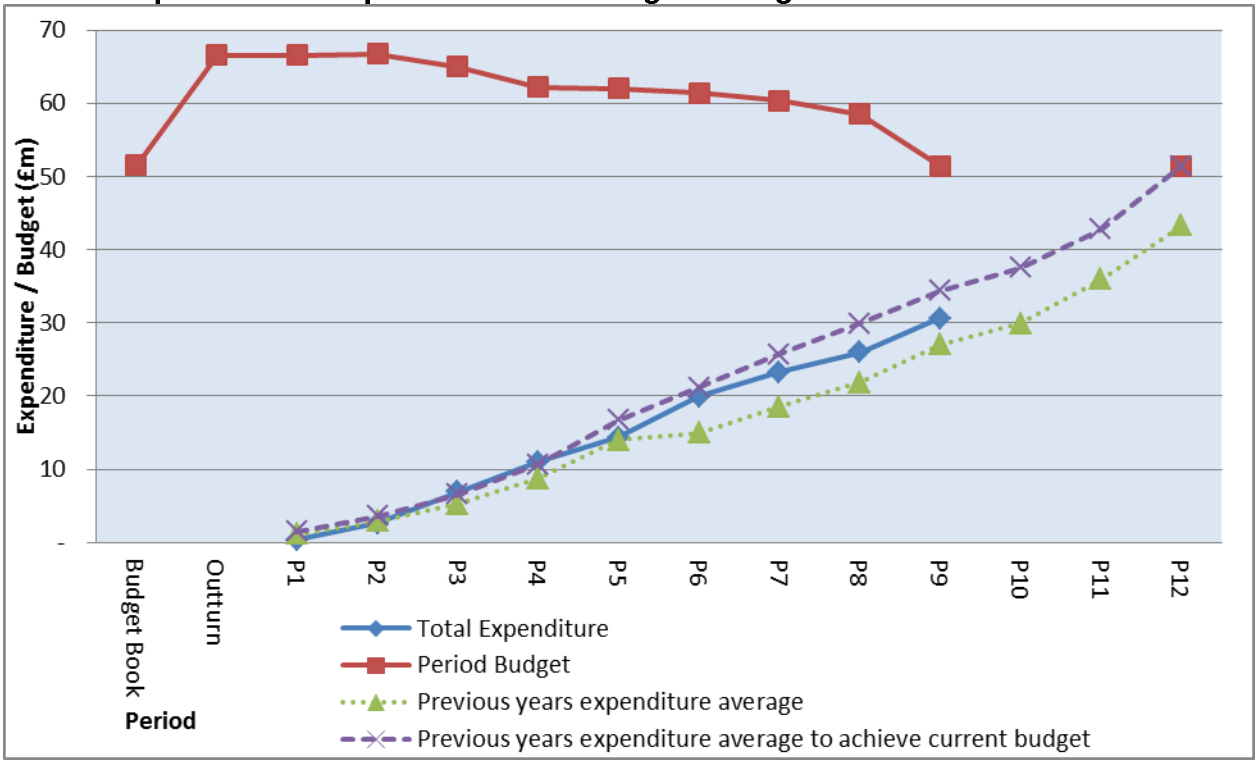
	2015/16 Revised Capital Programme	2015/16 Forecast Outturn	Variance
General Fund			
Expenditure	46,188,493	46,188,493	0
Financing	(46,188,493)	(46,188,493)	0
Shortfall/(surplus) In Resources	**0**	**0**	**0**
Housing Revenue Account			
Expenditure	5,201,623	5,201,623	0
Financing	(5,201,623)	(5,201,623)	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 £30.6m, which represents 59.5% of the revised capital budget at Quarter 3, 75% of the year. This is low in comparison to the total budget, but is ahead of 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 Quarter 3 on the Mardol House Student Accommodation project and Broadband; together with the impact of the significant re-profiling this quarter. 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 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 2 and to be approved to Quarter 3.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved Quarter 2 15/16	Quarter 3 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 3
Self-Financed Prudential Borrowing*	2,658,717	453,212	60,430	3,172,359
Government Grants	27,101,502	4,988,931	406,104	32,496,537
Other Grants	299,023	346,778	71,147	716,948
Other Contributions	-	475,968	132,217	608,185
Revenue Contributions to Capital	1,070,745	1,737,716	(790,962)	2,017,499
Major Repairs Allowance	4,712,856	844,901	(2,044,939)	3,512,818
Corporate Resources (expectation - Capital Receipts only)	15,700,408	1,593,569	(8,428,207)	8,865,770
Total Confirmed Funding	**51,543,251**	**10,441,075**	**(10,594,210)**	**51,390,116**

***** 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	36,978,211	19,634,000	15,650,079
Adult Services	2,019,000	-	-
Children's Services	9,303,765	7,666,783	-
Resources & Support	220,000	-	-
Total General Fund	**48,520,976**	**27,300,783**	**15,650,079**
Housing Revenue Account	7,347,311	3,603,074	-
Total Approved Budget	**55,868,287**	**30,903,857**	**15,650,079**
Financing			
Self-Financed Prudential Borrowing*	-	-	-
Government Grants	26,879,829	24,600,999	15,271,000
Other Grants	-	-	-
Other Contributions	426,381	-	-
Revenue Contributions to Capital	1,269,659	250,000	-
Major Repairs Allowance	5,441,865	3,603,074	-
Corporate Resources (expectation - Capital Receipts only)	21,850,553	2,449,784	379,079
Total Confirmed Funding	**55,868,287**	**30,903,857**	**15,650,079**

***** 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 In addition to the above future years programme, Members have also provisionally approved the business cases and financing for the LEP scheme for the Oxon Link Road 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	8,865,770	21,850,553	2,449,784
To be allocated from Ring Fenced Receipts	-	5,330,230	-
Total Commitments	**8,865,770**	**27,180,783**	**2,449,784**
Capital Receipts in hand/projected:			
Brought Forward in hand	14,106,162	8,554,300	
Generated 2015/16 YTD	2,882,716		
Projected - 'Green'	431,192	5,200,263	50,000
Total in hand/projected	**17,420,070**	**13,754,563**	**50,000**
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	**(8,554,300)**	**13,426,220**	**2,399,784**
Further Assets Being Considered for Disposal	**1,067,526**	**9,519,545***	**9,850,000***

* Plus any not completed from 2015/16.

11.2 Capital receipts of £14.1m were brought forward from 2014/15 and £2.9m has been generated to Quarter 3 of 2015/16. A further £0.431m is currently projected as 'Green' for 2015/16. Following the significant re-profiling in the capital programme in Quarter 3, there are more than sufficient receipts to finance the re-profiled 2015/16 programme. A further £1.1m of projected receipts are rated as 'Amber'/'Red' for completion in 2015/16, and work continues to progress these and some may still complete in year. Any surplus capital receipts the Council can generate in 2015/16 can be set aside at the end of the year to generate a one-off revenue MRP saving in 2016/17 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 2016/17 and 2017/18 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 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. Further borrowing has also been approved by Council for the phase 2 accommodation at the Tannery site. This will be added to the programme, once the final terms of the contract and how and when the funding will be drawn down has been agreed.

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
Capital Monitoring Report – Quarter 2 2015/16 – Cabinet 14 October 2015

Cabinet Member (Portfolio Holder)
Malcolm Pate, Leader of the Council.

Portfolio holders

Local Member
All

Appendices
1. Capital Budget and Expenditure 2015/16