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CAPITAL OUTTURN REPORT – 2015/16

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1. Summary

1.1 The purpose of this report is to inform Members of the final outturn position for the Council's 2015/16 capital programme and the current position regarding the 2016/17 to 2018/19 capital programme taking into account the slippage following the closure of the 2015/16 programme, and any budget increases/decreases for 2016/17 and future years. The report reflects:

- The re-profiled 2015/16 budget of £51.9m and the future years capital programme budget;
- The outturn capital expenditure of £44.4m, representing 85.7% of the re-profiled budget for 2015/16;
- An underspend of £7.4m, which has been slipped to 2016/17; and
- The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve net budget variations of £0.490m to the 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £51.9m.
- B. Approve the re-profiled capital budgets of £70.4m for 2016/17, including slippage of £7.4m from 2015/16, £36.4m for 2017/18 and £16.2m for 2018/19 as detailed in Appendix 1/Table 4.
- C. Accept the outturn expenditure set out in appendix 1 of £44.4m, representing 85.7% of the revised capital budget for 2015/16.
- D. Approve retaining a balance of capital receipts set aside of £17m as at 31st March 2016 to generate a one-off Minimum Revenue Provision saving of £377,500 in 2016/17.

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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.
- 5.2 A further update of the capital programme has been undertaken and an updated Capital Strategy for 2016/17 to 2018/19 was approved as part of the Business Plan and Financial Strategy by Council on 25 February 2016.

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 4 there has been a net budget decrease of £0.490m, compared to the position reported at Quarter 3 2015/16. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 4 that require approval.

Table 1: Revised Capital Programme Quarter 4 2015/16

Service Area	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved to Quarter 3 15/16	Quarter 4 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 4
General Fund				
Commissioning	30,587,810	(282,966)	487,456	30,792,300
Adult Services	3,740,632	(1,149,712)	-	2,590,920
Children's Services	7,777,002	571,246	25,961	8,374,209
Resources & Support	2,856,717	2,087,764	(23,277)	4,921,204
Total General Fund	44,962,161	1,226,332	490,140	46,678,633
Housing Revenue Account	6,581,090	(1,379,467)	-	5,201,623
Total Approved Budget	51,543,251	(153,135)	490,140	51,880,256

6.2 Full details of all budget changes are provided in Appendix One to this report; there have been no significant changes to the 2015/16 programme in Quarter 4.

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: Capital Programme Outturn Position by Service area 2015/16

Service Area	Revised Capital Programme – Outturn 2015/16	Actual Expenditure 31/03/16	Variance	Spend to Budget %
General Fund				
Commissioning	30,792,300	25,849,707	4,942,593	83.9%
Adult Services	2,590,920	2,113,997	476,923	81.6%
Children's Services	8,374,209	6,845,863	1,528,346	81.7%
Resources & Support	4,921,204	4,686,440	234,764	95.2%
Total General Fund	46,678,633	39,496,007	7,182,626	84.6%
Housing Revenue Account	5,201,623	4,942,737	258,886	95.0%
Total	51,880,256	44,438,744	7,441,512	85.7%

7.2 Total capital expenditure for 2015/16 was £44.4m, which equated to 85.7% of the re-profiled capital programme of £51.9m. All, but a small balance on a completed scheme of the £7.4m underspend has been slipped to 2016/17. Full details of expenditure variances at scheme level are in Appendix 1. A summary of significant variances by service area are provided below.

7.3 **Commissioning** – Total underspend against the Commissioning capital programme was £4.9m. The most significant area of underspend was £2.6m against Highways & Transport, this was due to the failure to deliver schemes scheduled for 2015/16 as a result of ongoing issues with delivery of capital schemes with the Councils Highways contractor. This was despite a level of over programming within the programme through increased tender schemes on the latter part of the year and £1.5m that had already been slipped to 2016/17. The full underspend has been slipped to 2016/17, including the level of works programmed above the remaining budget. This will be managed as part of the 2016/17 programme, to ensure the service does not go over budget, whilst maximising the delivery of works.

The other significant area of underspend was £2m against schemes under Business Growth & Prosperity. This included £0.785m on Broadband due to a lower than profiled claim from BT in the final quarter; £0.460m on Affordable Housing schemes from delays in grants being drawn down by developers; and £0.424m on Growth Point schemes, mainly relating to the works planned for the Raven Meadows Multi Storey Carpark.

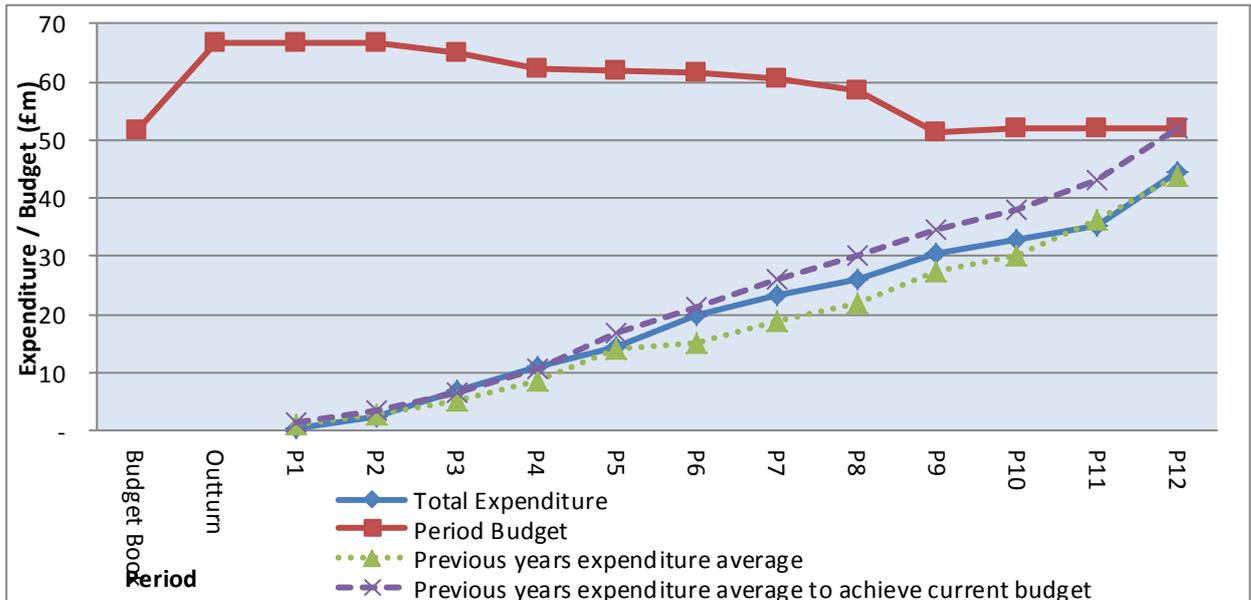
7.4 **Adult Services** – The total underspend against Adult Services was £0.477m; this was across all schemes in the programme and despite significant re-profiling earlier in the year.

7.5 **Children's Services** – The total underspend against the Children's Services capital programme was £1.5m. This was spread through-out the different areas of the programme and despite significant re-profiling earlier in the year. The underspend mainly resulted from the failure to deliver a number of schemes commissioned later in the year and schemes coming in under budget.

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

8.1 The outturn capital expenditure is £44.4m, which represents 85.7% of the revised outturn capital budget. 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



8.2 Expenditure in the first half of the year was above previous years and roughly in line with the trajectory to deliver the revised outturn budget. This was a result of significant expenditure in this period on the Broadband and Mardol House Student Accommodation projects. Expenditure in the second half of the year took place at a lower rate to the point where the outturn was in line with previous year's average expenditure and in an underspend position. This is as a result of the failure to deliver schemes as budgeted in 2015/16, as detailed in section 7 above.

8.3 The outturn budget was also at a similar level to the original budget book budget. This followed a large amount of slippage from 2014/15, which was then offset by re-profiling to future years throughout the year for expenditure that would not be delivered until later years. As reported actual outturn expenditure was then below the outturn budget. This failure to deliver the planned capital budget has been a reoccurring issue for a number of years, despite pressure on budget managers to profile budgets appropriately. Although this position assists with the short term affordability of the capital programme and short term pressure on capital receipt generation, it is potentially building up pressure for a future year, if a significantly higher level of capital expenditure was to occur. Based on the current position, a certain level of slippage is assumed, when considering the affordability of the capital programme.

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 3 and to be approved to Quarter 4.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved Quarter 3 15/16	Quarter 4 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 4
Self-Financed Prudential Borrowing*	2,658,717	513,642	-	3,172,359
Government Grants	27,101,502	5,395,035	832,131	33,328,668
Other Grants	299,023	417,925	112,405	829,353
Other Contributions	-	608,185	165,628	773,813
Revenue Contributions to Capital	1,070,745	946,754	383,525	2,401,024
Major Repairs Allowance	4,712,856	(1,200,038)	(107,800)	3,405,018
Corporate Resources (expectation - Capital Receipts only)	15,700,408	(6,834,638)	(895,749)	7,970,021
Total Confirmed Funding	51,543,251	(153,135)	490,140	51,880,256

* 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 (2016/17 includes £7.4m slippage from 2015/16):

Table 4: Capital Programme 2016/17 to 2018/19

Service Area	2016/17	2017/18	2018/19
General Fund			
Commissioning	45,734,678	25,283,519	16,150,079
Adult Services	4,994,142	-	-
Children's Services	11,498,285	7,556,161	-
Resources & Support	454,762	-	-
Total General Fund	62,681,867	32,839,680	16,150,079
Housing Revenue Account	7,713,997	3,603,074	-
Total Approved Budget	70,395,864	36,442,754	16,150,079
Financing			
Self-Financed Prudential Borrowing*	-	-	-
Government Grants	34,934,896	28,074,146	15,771,000
Other Grants	10,158	-	-
Other Contributions	682,984	4,750	-
Revenue Contributions to Capital	1,736,247	250,000	-
Major Repairs Allowance	5,681,489	3,603,074	-
Corporate Resources (expectation - Capital Receipts only)	27,350,090	4,510,784	379,079
Total Confirmed Funding	70,395,864	36,442,754	16,150,079

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

10.2 Full details of all budget changes are provided in Appendix One to this report. Significant changes are:

Budget Increases

- Department of Transport: additional funding in 2016/17 from Incentive Element funding £0.924m and Pothole Action Fund funding £1.036m.
- Department for Health – Better Care Fund: Confirmation of funding for 2016/17 of £2.498m. This incorporates previous separate allocations for DFGs and Community Capacity Grant, the Service have allocated

£1.379m to DFGs (as per 2015/16 allocation) and £1.119m to Adult Social Care schemes.

- Department for Education – Devolved Formula Capital (DFC): confirmation of funding allocation (£0.737m) for 2016/17.
- Local Enterprise Partnership (LEP): New funding for Broadband project phase 2b, totalling £5.022m, through to 2020/21. £2.061m of the funding in 2017/18 will be applied in place of capital receipts in 2015/16 / 2016/17 on the phase 1 scheme; reducing the short term pressure on capital receipt generation.
- Capital Receipts: reallocation of £32,400 of Small Business Loan repayments to future Small Business Loan schemes, as previously agreed by Cabinet.

Budget Decreases

- Department for Education – Condition: Confirmation of funding allocation for 2016/17, slightly lower (£0.111m) than provisional allocation, due to schools that have transferred to Academy's in 2015/16.

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 £	2018/19 £
Corporate Resources Allocated in Capital Programme	1,101,615	27,350,090	4,510,784	379,079
To be allocated from Ring Fenced Receipts	228,486	5,685,951	-	-
Total Commitments	1,330,101	33,036,041	4,510,784	379,079
Capital Receipts in hand/projected:				
Brought Forward in hand	14,106,162	16,989,451		
Generated 2015/16	4,213,389			
Projected - 'Green'		5,793,699	50,000	50,000
Total in hand/projected	18,319,551	22,783,149	50,000	50,000
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	(16,989,451)	10,252,892	4,460,784	329,079
Further Assets Being Considered for Disposal	-	10,095,311	9,850,000	400,000

11.2 Capital receipts of £4.2m have been generated in 2015/16. As previously reported, following the re-profiling in the capital programme and receipt of

additional external funds, sufficient receipts had been generated to finance this year's capital programme without any corporate prudential borrowing.

- 11.3 Following the underspend position for the capital programme for 2015/16 and the Council policy of applying un-ringfenced capital grants in place of capital receipts where they are not required in full due to scheme underspends, the Council has £17m in capital receipts in hand at 31/03/16. These will be set-aside, enabling the Council to achieve an additional MRP saving of £377,500 in 2016/17. This is lower than previous years due to the change in MRP policy from 2016/17 as approved by Council, which generated a significant base budget MRP saving.
- 11.4 These capital receipts are fully allocated to schemes in the future years capital programme and there is also 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.
- 11.5 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.
- 11.6 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.

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
Capital Monitoring Report – Quarter 3 2015/16 – Cabinet 11 February 2016
Financial Strategy 2016/17 to 2018/19 – Council 25 February 2016

Cabinet Member (Portfolio Holder)

Malcolm Pate, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2015/16