



<u>Committee and Date</u>
Cabinet 4 June 2014
Audit Committee 26 June 2014
Council 17 July 2014

<u>Item</u>
16
<u>Public</u>

CAPITAL OUTTURN REPORT – 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 final outturn position for the Council’s 2013/14 capital programme and the current position regarding the 2014/15 to 2016/17 capital programme taking into account the slippage following the closure of the 2013/14 programme, and any budget increases/decreases for 2014/15 and future years. The report reflects:

- § The re-profiled 2013/14 budget of £47.4m and the future years capital programme budget;
- § The outturn capital expenditure of £40.7m, representing 85.9% of the re-profiled budget for 2013/14;
- § An underspend of £6.7m, of which £6.56m has been slipped to 2014/15 and £115k of which is no longer required/available to the capital programme; and
- § The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve budget variations of £17,700 to the 2013/14 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2013/14 capital budget of £47.4m.
- B. Approve the re-profiled capital budgets of £71.4m for 2014/15, including slippage of £6.6m from 2013/14, £13.7m for 2015/16 and £5.3m for 2016/17 as detailed in Appendix 1/Table 4.
- C. Accept the outturn expenditure set out in appendix 1 of £40.7m, representing 85.9% of the revised capital budget for 2013/14.

- D. Approve the Highways & Transport programme of schemes for delivery in 2014/15 and delegate authority to the Area Commissioner South in consultation with the Portfolio Holder to approve any changes to the implementation plan of schemes for delivery in 2014/15, within the parameters of the outline capital programme.
- E. Approve the setting aside of capital receipt of £1.35m to replace the self-financed prudential borrowing previously applied to finance the Solar PV schemes. This will generate an ongoing revenue saving from 2014/15.
- F. Approve retaining a balance of capital receipts set aside of £13.25m as at 31st March 2014 to generate a Minimum Revenue Provision saving of £530,000 in 2014/15.

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 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 12 there

has been a net budget decrease of £17,700, compared to the position reported at Period 11 2013/14. Table 1 summarises the overall movement, between that already approved, and changes for Period 12 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 11 13/14	Period 12 budget changes to be approved	Revised 2013/14 Capital Programme Period 12
General Fund				
Commissioning	46,668,987	(15,198,787)	(15,787)	31,454,413
Adult Services	1,531,768	(747,176)	-	784,592
Children's Services	12,139,904	(1,960,454)	-	10,179,450
Resources & Support	2,939,136	(1,967,933)	(1,913)	969,290
Total General Fund	63,279,795	(19,874,350)	(17,700)	43,387,745
Housing Revenue Account	5,131,300	(1,135,423)	-	3,995,877
Total Approved Budget	68,411,095	(21,009,773)	(17,700)	47,383,622

6.2 Full details of all budget changes are provided in Appendix One to this report, there have been no significant changes in Period 12.

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: Capital Programme Outturn Position by Service area 2013/14

Service Area	Revised Capital Programme – Outturn 2014/15	Actual Expenditure 31/03/14	Variance	Spend to Budget %
General Fund				
Commissioning	31,454,413	27,732,237	3,722,176	88.2%
Adult Services	784,592	483,647	300,945	61.6%
Children's Services	10,179,450	8,586,899	1,592,551	84.4%
Resources & Support	969,290	626,958	342,332	64.7%
Total General Fund	43,387,745	37,429,741	5,958,004	86.3%
Housing Revenue Account	3,995,877	3,275,666	720,211	82.0%
Total	47,383,622	40,705,407	6,678,215	85.9%

7.2 Total capital expenditure for 2013/14 was £40.7m, which equated to 85.9% of the re-profiled capital programme of £47.4m. £6.56m of the £6.7m

underspend has been slipped to 2014/15. The balance has been allocated to the depot redevelopment programme to replace self-financed prudential borrowing. Full details of expenditure variances at scheme level are in Appendix 1. A summary of significant variance by service area are provided below:

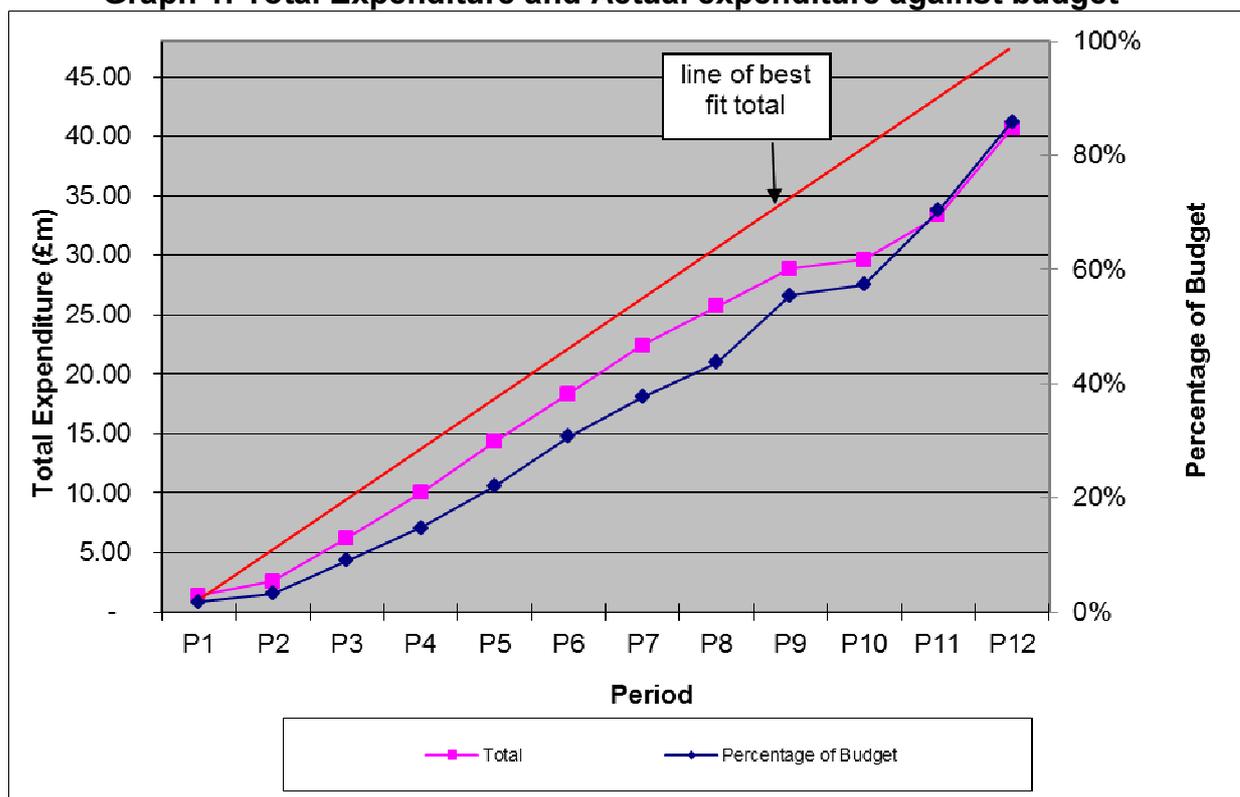
- 7.3 **Commissioning** – Total underspend against the Commissioning capital programme was £3.7m. The most significant area of underspend was £1.42m against Highways & Transport, this was due to the failure to deliver schemes scheduled for 2013/14. From the underspend, £1.3m has been slipped to 2014/15 for the delivery of schemes delayed from 2013/14 and £112k has been allocated against the depot redevelopment programme in place of self-financed prudential borrowing.

Other significant areas of underspend include £415k on Housing Health & Wellbeing grants, mainly on Disabled Facilities Grants. This is due to a backlog in cases being processed, delaying the drawdown of allocated funding. Under the Market Town Revitalisation Programme there has been an underspend of £453k across the programme against the deadline of 31/03/14 for bodies to drawdown grants. A decision will be taken in early 2014/15 financial year on how to reallocate these monies based on the position with existing projects and other pressures within the capital programme.

- 7.4 **Adult Services** – The total underspend against Adult Services was £331k, 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 £1.6m. This was spread through-out the different areas of the programme, following delays in commissioning and delivery of schemes.
- 7.6 **Resources & Support** – The underspend against the Resources & Support capital programme was £340k, the main area of this was on the Gypsy Site schemes, where delays pushed completion into 2014/15.
- 7.7 **Housing Revenue Account** – The Housing Revenue Account underspent by £720k, this was across the various elements of the programme.

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

- 8.1 The outturn capital expenditure is £40.7m, which represents 85.9% of the revised outturn capital budget. 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 2013/14 capital programme. Table 3 summarises the financing sources and changes made to Period 11 and to be approved in Period 12.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 28/02/13	Slippage and budget changes approved to Period 11 13/14	Period 12 budget changes to be approved	Revised 2013/14 Capital Programme Period 12
Self-Financed Prudential Borrowing*	9,205,671	(9,279,283)	-	(73,612)
Government Grants	34,305,175	(6,220,449)	638,328	28,723,054
Other Grants	1,009,669	207,368	-	1,217,037
Other Contributions	877,095	569,868	3,494	1,450,457
Revenue Contributions to Capital	2,677,800	93,438	(142,372)	2,628,866
Major Repairs Allowance	3,200,000	(583,409)	141,070	2,757,661
Corporate Resources (Capital Receipts/ Prudential Borrowing)	17,135,685	(5,797,306)	(658,220)	10,680,159
Total Confirmed Funding	68,411,095	(21,009,773)	(17,700)	47,383,622

* 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 (2014/15 includes £6.6m slippage from 2013/14):

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

Service Area	2014/15	2015/16	2016/17
General Fund			
Commissioning	39,918,330	8,264,157	3,500,000
Adult Services	1,757,519	314,663	-
Children's Services	16,404,252	1,709,784	1,795,273
Resources & Support	2,547,675	130,000	50,000
Total General Fund	60,627,776	10,418,604	5,345,273
Housing Revenue Account	10,811,102	3,287,090	-
Total Approved Budget	71,438,878	13,705,694	5,345,273
Financing			
Self-Financed Prudential Borrowing*	163,046	-	-
Government Grants	37,375,282	1,789,784	1,795,273
Other Grants	650,993	9,023	-
Other Contributions	502,588	-	-
Revenue Contributions to Capital	3,530,447	414,000	-
Major Repairs Allowance	7,456,526	3,200,000	-
Corporate Resources (Capital Receipts/ Prudential Borrowing)	21,759,996	8,292,887	3,550,000
Total Confirmed Funding	71,438,878	13,705,694	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 Significant changes across the life of the programme include £1.74m new Homes and Communities Agency funding for the refurbishment of 3 gypsy site, profiled to be delivered mainly in 2014/15. £0.558m from revenue contributions from New Home Bonus monies for Community Led Affordable Housing grant schemes across 2014/15 and 2015/16. £0.654m in Severe Weather Recovery funding from Department for Transport.
- 10.3 **Highways and Transport Capital Programme:** the 2014/15 Capital Strategy report included the Highways and Transport capital programme for 2014/15 of £16.7m. Following slippage from the 2013/14 programme and other funding changes, this has increased to £18.5m. An updated Highways and Transport capital programme is detailed in appendix 2 to this report, this has been updated to include the implementation plan of schemes for delivery in 2014/15.
- 10.4 The programme detailed in appendix 2 is the programme the Council plan to deliver for 2014/15; however factors beyond the Councils control can delay the delivery of the programme. As such, it is recommended authority is delegated to the Area Commissioner South in consultation with the Portfolio Holder to approve any changes to the implementation plan of schemes for delivery in 2014/15, within the parameters of the outline capital programme.

Any changes will be formally reported as virements through the monthly capital monitoring reports.

- 10.5 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 Applied to finance Capital Programme	5,325,116			
Capital Receipts applied direct to CAA (including £1.35m to replace Prudential Borrowing on Solar PV schemes)	1,390,118			
Corporate Resources Allocated in Capital Programme		21,759,996	8,292,887	3,550,000
To be allocated from Ring Fenced Receipts	-	2,575,778	1,145,410	1,762,500
Total Commitments	6,715,234	24,335,774	9,438,297	5,312,500
Capital Receipts in hand/projected:				
Brought Forward in hand	12,393,574	13,245,785		
Generated 2013/14	7,567,446			
Future Years - 'Green'		5,949,820	2,399,225	4,000,000
Total in hand/projected	19,961,020	19,195,605	2,399,225	4,000,000
Surplus to be carried forward to 2014/15	(13,245,785)			
Shortfall / (Surplus) to be financed from Prudential Borrowing		5,140,169	7,039,072	1,312,500
Further Assets Being Considered for Disposal		12,331,915	6,525,000	3,595,000

- 11.2 Capital receipts of £7.6m have been generated in 2013/14. As previously reported, following the re-profiling in the capital programme, sufficient receipts

had been generated to finance this year's capital programme without any corporate prudential borrowing.

- 11.3 In 2011/12 and 2012/13 as part of the Councils Carbon Management Programme, £1.41m of expenditure was incurred in installing Solar PV at 16 schools. As well as the benefits the schools gain from cheaper energy costs, the Council also receives annual revenue income from the feed-in tariffs, In 2013/14 this income to the Council amounted to £96k. However as the scheme was financed by self-financed prudential borrowing, annual payments have to be made to cover the cost of the borrowing (£112k in 2013/14). Given the high level of receipts in hand, it is proposed to set aside receipts to replace the balance of the borrowing (£1.35m) and generate an ongoing revenue saving.
- 11.4 Following the outturn underspend position for the capital programme for 2013/14, the changes to financing of Solar PV schemes 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 £13.25m in capital receipts in hand at 31/03/14. These will be set-aside, enabling the Council to achieve an additional MRP saving of £0.530m in 2014/15.
- 11.5 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.
- 11.6 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
Capital Monitoring Report – Period 11 2013/14 – Cabinet 9 April 2014

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Portfolio holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2013/14
2. Highways Capital Programme 2014/15