

	Committee and Date EMT 13 th June 2023	Item
	Transformation and Improvement Overview Scrutiny Committee 12 th July 2023	Public
		
		

Capital Strategy 2022/23 – 2027/28; Mid-Year Review - GREEN PAPER

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1. Synopsis

This Green Paper sets out the process for a mid-year review of the Capital Strategy 2023-24 - 2027-28, previously approved by Council in March 2023. The process will identify the Council's priority and aspirational capital schemes and ensure consistency with Shropshire Plan objectives.

2. Executive Summary

- 2.1. The 2023/24 budget process focussed primarily on revenue budgets. This was because the biggest financial challenge for the Council was in revenue, and not in capital, and took account of the detailed review capital strategy undertaken 18 months previously (in Dec 2021). It was also known that planning decisions would be taken on a number of high-profile schemes in the early part of the new financial year, which could result in revisions being needed.
- 2.2. So, to avoid any wasted effort and to maximise the ability to ensure a strong capital programme strategy is maintained, it was decided to plan a detailed capital programme strategy review for the summer 2023. This would then be informed by

the latest decisions on planning, and scheme costs could be revised once construction inflation impacts were clearer.

2.3. The outturn for the capital programme 2022/23 was £100.365m.

3. Scope and timing of the review

3.1. Scope

- The review will take account of latest information on all existing schemes and update the capital spending estimates for them.
- The alignment of schemes to the objectives of The Shropshire Plan will be identified, and schemes with low or marginal alignment may be reconsidered as needed.
- Proposed new schemes will also be considered - for example, any capital investment designed to reduce revenue costs in social care.
- The revenue impact of that will be compared to existing provision in revenue budgets.
- The review will also consider the opportunity to capitalise staff pay costs where these are explicitly involved in capital scheme delivery, or transformation (in line with accounting regulations).
- Lastly, the long-term revenue impact of schemes (for example, enabling additional housebuilding, so generating additional Council Tax revenues) can also be identified. (Although such benefits will not be included in the revenue resources forecasts set out in the MTFS until they are more certain.)

3.2. Timing

- The updated capital programme will be taken to Cabinet in September 2023.
- It will be brought back to Scrutiny Committee in November 2023 to enable the Committee to review the changes indicated by the review.
- Councillors will be encouraged to consider whether scheme objectives are fully aligned to the objectives of The Shropshire Plan, and should they so wish, to present at a subsequent meeting any alternatives they may wish to propose.
- The result of this discussion will inform the revised capital strategy to be prepared alongside the revenue budget, both of which will be brought forward in February 2024 and presented to Full Council in March 2024 ahead of the new financial year.

4. Recommendations

- 4.1. That the Scrutiny Committee consider the proposals, in particular the scope and timing of the review, and the relationship with alternative budget proposals, and comments as needed.

Report

5. Risk Assessment and Opportunities Appraisal

- 5.1 Failure to determine updated prioritised capital schemes schedule could result in capital schemes being delayed, jeopardise the realisation of revenue savings from the reduction of costs and /or the generation of new / additional income and fail to appropriately target limited Council resources.

6. Financial Implications

- 6.1. The capital and revenue implications of the updated prioritised capital schemes schedules will be considered as part of the Mid-Year Capital Strategy due to be presented to Council in September 2023.

7. Climate Change Appraisal

- 7.1. Determination of the updated prioritised capital schemes schedules will include consideration of the climate impact of individual schemes and contribution to the Council's objective of net-zero corporate carbon performance by 2030.

8. Background

Development of the Council's Capital Strategy

- 8.1. Shropshire Council approved its first Capital Strategy in 2019-20 covering the period 2019-20 to 2023-24. This first Capital Strategy addressed the Council's future capital scheme aspirations aligned to the achievement of ongoing statutory requirements and to the delivery of the then Corporate Plan.
- 8.2. In subsequent years the Council's Capital Strategy has been progressed and refined in terms of the schedule of future capital schemes, the requirement for Council supported funding and the resulting impact on the revenue budget in terms of additional MRP liability.
- 8.3. Due to the significant revenue pressures facing the Council in 2023-24, only a light touch review of future capital schemes was undertaken for the Capital Strategy 2023-24 to 2027-28 with the intention of undertaking a full review of the Capital Strategy during 2023-24. Consequently, the schedule of future schemes was updated primarily to reflect schemes that had progressed into the Council's approved capital programme and schemes for which revised cost estimates were available.
- 8.4. This latest schedule of priority capital schemes has a total estimated cost of £301.823m and potential borrowing requirement of £87.610m, generating a maximum MRP budget requirement of £4.914m by 2027-28, which has been incorporated in the Council's Medium Term Financial Strategy (MTFS). This current schedule of priority future schemes will be developed as part of the mid-year review of the Capital Strategy and this green paper will explore and propose the high-level principles / criteria to be utilised.

2022-23 Capital Outturn Position

8.5. Total capital expenditure for 2022/23 was £100.365m, which equated to 90.3% of the re-profiled capital programme of £111.112m. The table below summarises the capital programme outturn position for 2022/23 by directorate.

Detail	Revised Capital Programme - Outturn 2022/23 £m	Actual Expenditure 31/03/2023 £m	Variance £m	Spend To Budget %
General Fund				
Health & Wellbeing	-	-	-	-
People	16.275	19.175	(2.899)	117.8%
Place	76.500	67.289	9.211	88.0%
Workforce & Transformation	0.486	0.443	0.042	91.3%
Total General Fund	93.261	86.907	6.354	93.2%
Housing Revenue Account	17.851	13.458	4.393	75.4%
Total Approved Budget	111.112	100.365	10.747	90.3%

8.6. There was a total variance of £10.747m between the revised Outturn Budget and the Outturn Expenditure. All of this underspend will be slipped to future years to facilitate completion of projects in delivery during in 2023-24 and beyond as required following a review of expected profiles.

8.7. The updated capital programme and the financing of the programme for the period 2023-24 to 2025-26 is summarised below.

Detail	2023/24 £m	2024/25 £m	2025/26 £m
General Fund			
Health & Wellbeing	-	-	-
People	28.272	17.577	7.399
Place & Enterprise	76.828	78.088	35.552
Resources	1.000	-	-
Total General Fund	106.100	95.665	42.951
Housing Revenue Account	20.475	15.122	13.313
Total Approved Budget	126.575	110.787	56.264
Financing			
Self Financed Prudential Borrowing *	41.654	30.734	12.342
SALIX Loan	1.910	0.000	-
Government Grants	55.010	58.801	30.481
Other Grants	2.188	0.061	0.020
Other Contributions	7.855	5.951	2.100
Revenue Contributions to Capital	1.049	0.000	0.369
Major Repairs Allowance	4.828	4.828	5.000
Corporate Resources (expectation - Capital Receipts only)	12.080	10.412	5.952
Total Confirmed Funding	126.575	110.787	56.264

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

High-Level Prioritisation Principles for Future Capital Schemes

8.8. The Council's schedule of priority capital schemes detailed in the Capital Strategy 2023-24 to 2027-28, approved by Council on 2nd March 2023, will be the starting point for the mid-year review. Directors and Assistant Directors will have the opportunity to incorporate additional schemes into the schedule. It is proposed that schemes will be prioritised using the following principles / criteria:

- Alignment with The Shropshire Plan (TSP).
- Linkage of schemes to specific TSP priorities.
- Alignment with the Council's key strategies such as the Climate Change Strategy: Towards Net-Zero Carbon, the Economic Growth Strategy, the Asset Management Strategy and the Commercial Strategy.

- Schemes already partially approved and so already incorporated in the Capital Programme.
- Maximisation of external funding.
- Minimisation of borrowing requirement.
- Impact on the revenue budget in terms of income generation and / or reduced expenditure. Examples of this are the Temporary Accommodation scheme, where the Council is acquiring property to provide homeless residents with accommodation so achieving revenue savings on bed and breakfast costs, and the Children’s Residential Care scheme, where the Council is acquiring property to provide internal provision for children with complex needs so achieving revenue savings on expensive provision by external providers.
- Generation of new capital receipts.
- Scheme ability to fund borrowing costs.
- Generation of longer-term financial benefits such as additional council tax or business rates income, although these benefits will not be included within revenue forecasts until the income is realised.

To facilitate a thorough and robust review of proposed capital schemes and achieve an appropriately prioritised schedule of capital schemes, a proposed project plan has been drafted for consideration.

The project plan is split into two distinct phases as follows:

- Capital Scheme Prioritisation
- Mid-Year Capital Strategy Paper

The objective of the proposed plan is to have a completed Mid-Year Capital Strategy, which incorporates the impact of an up-to-date schedule of the Council’s priority capital schemes, for consideration by Members at Council on 21st September 2023. The proposed plan allows for consultation with service area managers, Assistant Directors, Directors and Members to identify the Council’s priority capital schemes. The proposed project plan is shown at below.

Key Milestone	Timeline
Prioritisation of Capital Schemes Schedules by Officers	5 th - 23 rd June 2023
Mid-Year Capital Strategy Drafted by Officers	19 th June - 7 th August 2023
Production of Consolidated Capital Schemes Schedules	26 th June - 5 th July 2023
Approval of Consolidated Capital Schemes Schedules By EMT	6 th - 11 th July 2023
Prioritisation of Capital Schemes Schedules by Members <i>Incorporating Member Presentation / Workshop</i>	14 th - 26 th July 2023
Prioritised Capital Schemes Schedules Finalised by Officers	31 st July 2023
In Year Approvals required as per Draft Mid-Year Capital Strategy Approved by Cabinet & Council	6 th - 21 st September 2023
Mid-Year Capital Strategy Reviewed and Considered by Scrutiny Committee	29 th November 2023

Key Milestone	Timeline
Mid-Year Capital Strategy Approved by Cabinet & Council	13 th – 14 th December

9. Additional Information

2023-24 Capital Programme Review

9.1. The Council's Capital Programme incorporates some capital schemes which have been partially approved but have yet to be approved in their entirety due to outstanding funding requirements. These schemes are:

- The North-West Relief Road (NWRR) and the Oxon Link Road (OLR)
- The Pride Hill Repurposing Scheme
- The Multi Agency Hub (MAH)
- Swimming In Shrewsbury

9.2. As these schemes progress during the course of 2023, it may be necessary to obtain further in-year approvals from Cabinet and Council in September, in order to provide necessary funding for the schemes to continue. These will only be specific to the schemes detailed below and then the Mid-Year Capital Strategy as a whole will be approved in December by Cabinet and Council.

North-West Relief Road (NWRR) & Oxon Link Road (OLR)

9.2. Both the NWRR and OLR schemes will be reviewed following the conclusion of planning decisions in terms of revised cost profiles, incorporating construction industry inflationary pressures, and funding arrangements. Submission of a final full business case is required by Department of Transport (DfT) once planning permission is secured for confirmation of full grant award. Officers are currently investigating funding sources to support these schemes.

Shrewsbury Town Centre Redevelopment (STCR) Programme

9.3. The Pride Hill Repurposing Scheme and the Multi Agency Hub (MAH) comprise Phase 1 of the ambitions of the STCR Programme. In February 2022 Council approved initial funding of £3.295m to progress these schemes to planning (RIBA Stage3). In addition to this Council funding approval, funding bids to the Marches LEP and Levelling Up Fund (LUF) Round 2, administered by the Department for Levelling Up, Housing & Communities (DLUHC), were submitted to support the Pride Hill Repurposing Scheme and the wider Shrewsbury Town Centre Redevelopment Programme respectively. These bids were successful with £5.020m being awarded by the Marches LEP and a total of £18.701m being awarded under LUF, a proportion of which will support the MAH project.

9.4. Significant progress has been achieved on these schemes: a development manager was commissioned in November 2022; architectural services have recently been tendered and awarded; and invitations to tender have been issued for multi-disciplinary engineering services.

9.5. In close consultation with Council officers, the development manager is presently concluding work to establish a baseline development appraisal (financial model,

detailed budget forecast and cash flow) for the schemes, enabling an initial scheme budget requirement to be determined.

Swimming In Shrewsbury

- 9.6. Works are currently progressing on re-opening The Quarry facility and works are on schedule. Options for facilities at The Sports Village are being considered, with RIBA Stage 1 completed and public consultation planned, the findings of which will be incorporated in a final business case to Council.

Governance Arrangements

- 9.7. The mid-year review will also take the opportunity to examine and revise the governance arrangements currently in place for the appraisal and approval of capital schemes.

Staff Costs Capitalisation

- 9.8. The Council's Medium Term Financial Strategy approved in March 2023 included the requirement to achieve significant savings of £51.390m to balance the budget in 2023-24. Some of these savings will be achieved by the capitalisation of staff engaged on specific capital schemes, by funding from the approved scheme budgets, and by capitalising the costs of staff engaged on transformation projects, by funding from capital receipts using the Council's ability under statutory guidance for the flexible use of capital receipts. This statutory guidance allows the revenue costs of projects that deliver ongoing savings or improved efficiency to be funded through capital receipts. Funding these savings through capital will result in additional pressure on both existing capital scheme budgets and the Council's capital receipts realisation requirements.
- 9.9. Moving forward any proposed capitalisation of the costs of staff engaged on either capital schemes or on transformation projects will be specifically identified in business cases and included in within the overall scheme / project funding requirement.
- 9.10. The Mid-Year Capital Strategy will clearly reference capital receipts funding required as a result of the capitalisation of costs associated with staff engaged on transformation projects and the implications for the future capital programme.

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

**Local Member:
All**

Appendices

None
