



<u>Committee and Date</u>  <b>Cabinet</b> 30 July 2014  12.30 pm
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<u>Item</u>  <b>11</b>  <u>Public</u>
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**CAPITAL MONITORING REPORT – QUARTER 1 2014/15**

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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 2014/15 to 2017/18 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 2014/15 and future years. The report reflects:

- The re-profiled 2014/15 budget of £70.9m and the future years capital programme budget;
- Expenditure to date of 8.1% of the revised budget;
- A projected outturn in line with the re-profiled budget of £70.9m; and
- The current funding of the programme and its future affordability.

**2. Recommendations**

Members are asked to:

- A. Approve net budget variations of £0.5m to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £70.9m.
- B. Approve the re-profiled capital budgets of £18.3m for 2015/16 and £5.4m for 2016/17 as detailed in Appendix 1/Table 4.
- C. Recommend to Full Council the approval of the budget increases for new external funding of £2.24m in additional Highways Maintenance funding from the Department of Transport for expenditure in 2014/15 and an additional £1.5m grant from BDUK for the current Broadband Project.
- D. Accept the expenditure to date of £5.7m, representing 8.1% of the revised capital budget for 2014/15, with 25% 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 2014/15 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 2014/15 and future years, was updated as part of the Capital Strategy 2014/15 to 2017/18 report, approved by Council 27 February 2014. This included updated allocations of capital grants and a review of and delivery schedule for schemes.

### 6. Original and latest proposed capital programme for 2014/15

- 6.1 The capital budget for 2014/15 is subject to change, the largest element being slippage from 2013/14 and re-profiling into future years. In Quarter 1 there has been a net budget decrease of £0.5m, compared to the position reported at Outturn 2013/14. Table 1 summarises the overall movement, between that already approved, and changes for Period 11 that require approval.

**Table 1: Revised Capital Programme Quarter 1 2014/15**

Service Area	Agreed Capital Programme - Council 28/02/13	Slippage and budget changes approved to Outturn 13/14	Quarter 1 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 1
<b>General Fund</b>				
Commissioning	33,394,659	6,509,613	256,434	40,160,706
Adult Services	1,419,791	337,728	-	1,757,519
Children's Services	13,173,406	3,230,846	(859,370)	15,544,882
Resources & Support	268,000	2,293,733	(138,642)	2,423,091
<b>Total General Fund</b>	<b>48,255,856</b>	<b>12,371,920</b>	<b>(741,578)</b>	<b>59,886,198</b>
<b>Housing Revenue Account</b>	10,090,890	720,212	230,380	11,041,482
<b>Total Approved Budget</b>	<b>58,346,746</b>	<b>13,092,132</b>	<b>(511,198)</b>	<b>70,927,680</b>

- 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:
- New allocation of £2.24m of additional Highways Maintenance funding from the Department of Transport. This will be used to extend the Council's resurfacing programme for 2014/15 and under the terms of the funding the Council is required to complete all works by 31 March 2015 and report quarterly on works delivered from the funding.
  - An additional £1.5m grant from BDUK has been awarded for the Broadband Project. This will be used to extend the current programme in a number of specific post code areas. Surveying work is underway. The funds have provisionally been built into 2015/16, until a new delivery schedule is agreed with BT. Deployment is likely to commence from 2016.
  - Two new schemes financed by Corporate Resources have been added to the programme. The replacement of the projector at the Old Market Hall Cinema, Shrewsbury. The replacement is necessary due to problems with the existing equipment, which has reached the end of its useful functioning life. The scheme is being funded by £33,000 from corporate Resources and an £11,000 revenue contribution from the Service. The replacement will protect the services ongoing income and potentially generate additional income through enabling the streaming of live events. The other scheme is £60,000 for the re-purchase of a former HRA dwelling, financed from ring-fenced HRA receipts.
  - Re-profiling totalling £3.1m from 2014/15 to 2015/16. This consists of £2.2m against Commissioning, of which £0.6m is externally financed Flood & Water Management schemes and £1.5m under Growth Point schemes (£1m Flaxmill and £0.5m Shrewsbury Vision) - as both schemes have been delayed. For Children's Services there has been re-profiling of £0.95m, which is mainly against Basic Need., as no further schemes are ready for delivery in 2014/15.

## 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 2014/15.

**Table 2: Current Capital Programme and Forecast Outturn Quarter 1 2014/15**

	2014/15 Revised Capital Programme	2014/15 Forecast Outturn	Variance
<b>General Fund</b>			
Expenditure	59,886,198	59,886,198	0
Financing	(59,886,198)	(59,886,198)	0
<b>Shortfall/(surplus) In Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Housing Revenue Account</b>			
Expenditure	11,041,482	11,041,482	0
Financing	(11,041,482)	(11,041,482)	0

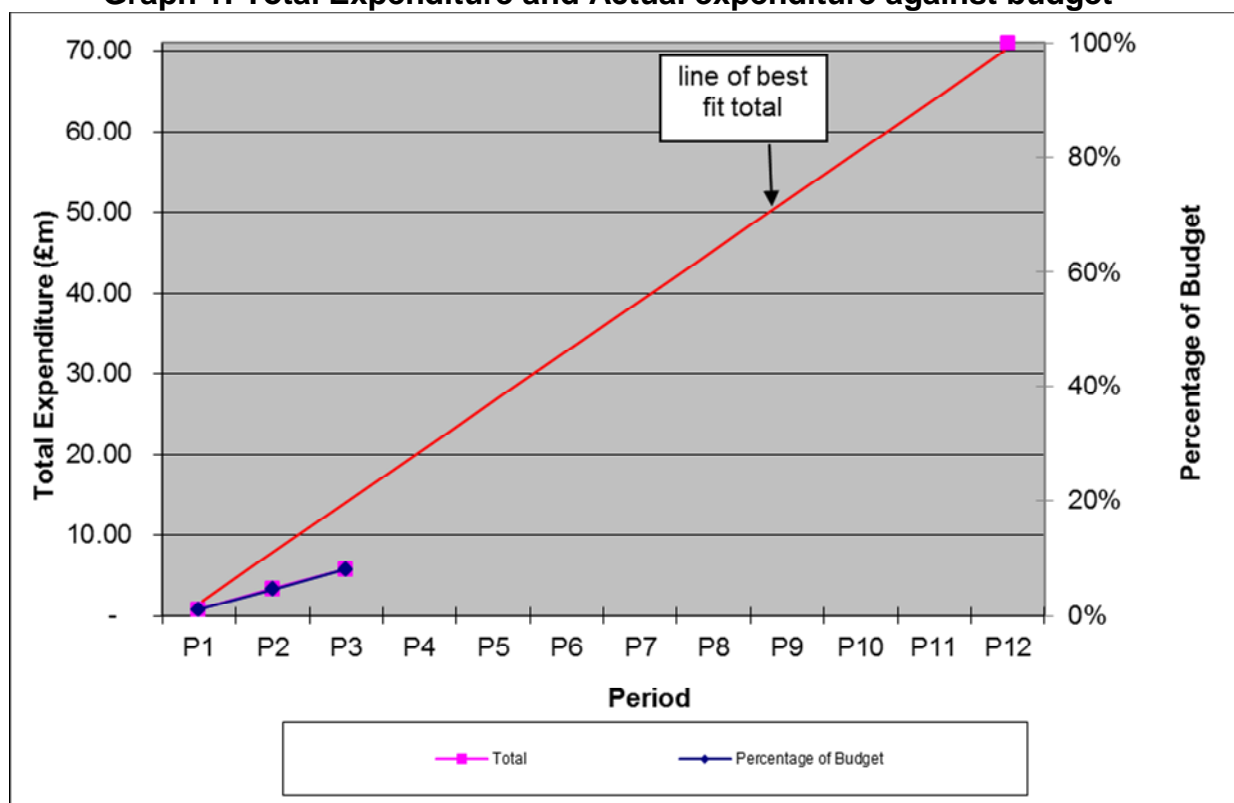
<b>Shortfall/(surplus) In Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>
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7.2 The 2014/15 capital programme is currently projected to be delivered within the re-profiled budget. However, there have been some delays on the delivery of two schemes, which may result in an overspend on these schemes in 2014/15. The overall programme is not reporting a forecast overspend as there are options to re-allocate existing funding in the capital programme if required, preventing additional pressures on resources. The scheme details are as follows:

- Whitchurch Civic Centre: Work is now complete on Site with handover back to Whitchurch Town Council taking place on 8th May 2014 and an official opening ceremony on 9th May 2014. The scheme is currently in the retention period with a number of snagging items to be addressed before release of the final retention payment of 2.5% to the Contractor following a 12 month defect period. During the next quarter officers are seeking to secure a final contract figure via the project appointed Quantity Surveyor and Architect who will be reviewing all Architectural Instructions issued from the commencement of the project and agreeing a final project cost with the Contractor and Shropshire Council Officers. The current forecast financial position on the project has not changed from the previous quarter, and is a projected outturn cost of £863k which represents £120k over the original tender budget due to unforeseen costs and an eight week time extension partly due to adverse weather. Officers are anticipating that the final cost comes within the current projection and there is no further financial risk on the project. Officers are in discussion about how this deficit can be addressed, once finalised, that will have no detrimental impact on the current Capital Programme.
- Shrewsbury Business Park Phase 2 extension: Work is complete apart from some snagging and the road was opened on the 14th of July and has been handed-over to Shropshire Council. Negotiations are still underway between the Client Representative and the Contractor to secure the final account settlement. This project is forecast to be in a deficit position due to time extensions, adverse weather and third Party Contractor delays in the installation of a water main diversion which impacted upon the Contractors programme. Officers are looking at various options of containing this deficit, including seeking compensation from the Contractor and the Third Party Contractor, and have opened up correspondence. An accurate projected outturn showing how it can be contained in the current programme will be available at the end of the next quarter.

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

8.1 The actual capital expenditure at Quarter 1 is £5.7m, which represents 8.1% of the revised capital budget at Quarter 1, 25% of the year. Although low, this is broadly in line with previous years and reflects the programmes for the delivery of individual capital schemes. In particular, in Highways and Schools, the largest areas of the programme, where the majority of works are programmed for the summer period. A further comprehensive review of the programme will take place prior to the Quarter 2 report to Cabinet in October. 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 2014/15 capital programme. Table 3 summarises the financing sources and changes made to Outturn 2013/14 and to be approved in Quarter 1.

**Table 3: Revised Capital Programme Financing**

Financing	Agreed Capital Programme - Council 28/02/14	Slippage and budget changes approved to Outturn 13/14	Quarter 1 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 1
Self-Financed Prudential Borrowing*	261,142	(98,096)	-	163,046
Government Grants	34,408,091	2,967,191	1,662,246	39,037,528
Other Grants	442,303	208,690	-	650,993
Other Contributions	382,512	120,076	188,369	690,957
Revenue Contributions to Capital	2,805,294	725,153	158,561	3,689,008
Major Repairs Allowance	6,293,314	1,163,212	-	7,456,526
Corporate Resources (expectation - Capital Receipts only)	13,754,090	8,005,906	(2,520,374)	19,239,622
<b>Total Confirmed Funding</b>	<b>58,346,746</b>	<b>13,092,132</b>	<b>(511,198)</b>	<b>70,927,680</b>

\* 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 2015/16 to 2017/18 is summarised by year and financing in Table 4 below:

**Table 4: Capital Programme 2015/16 to 2017/18**

Service Area	2015/16	2016/17	2017/18
<b>General Fund</b>			
Commissioning	11,958,717	3,532,000	-
Adult Services	314,663	-	-
Children's Services	2,655,188	1,795,273	-
Resources & Support	130,000	50,000	-
<b>Total General Fund</b>	<b>15,058,568</b>	<b>5,377,273</b>	-
<b>Housing Revenue Account</b>	<b>3,287,090</b>	-	-
<b>Total Approved Budget</b>	<b>18,345,658</b>	<b>5,377,273</b>	-
<b>Financing</b>			
Self-Financed Prudential Borrowing*	-	-	-
Government Grants	3,984,344	1,827,273	-
Other Grants	9,023	-	-
Other Contributions	-	-	-
Revenue Contributions to Capital	414,000	-	-
Major Repairs Allowance	3,200,000	-	-
Corporate Resources (expectation - Capital Receipts only)	10,738,291	3,550,000	-
<b>Total Confirmed Funding</b>	<b>18,345,658</b>	<b>5,377,273</b>	-

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

10.2 The above programme for future years is currently much lower than the 2014/15 and previous years programme, this is because 2014/15 is the final year of the current allocated grant settlement and a number of the larger Council Financed schemes have reached/are reaching completion. An updated programme will be presented to Council for approval in September 2014 for new Shropshire Council financed schemes and in February 2015 for new allocations of Government funding.

10.3 Following the Capital Strategy 2014/15 to 2017/18 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.

## 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 2014/15 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	2014/15 £	2015/16 £	2016/17 £
Corporate Resources Allocated in Capital Programme	19,239,622	10,738,291	3,550,000
To be allocated from Ring Fenced Receipts	2,633,397	1,145,410	1,762,500
<b>Total Commitments</b>	<b>21,873,019</b>	<b>11,883,701</b>	<b>5,312,500</b>
<b>Capital Receipts in hand/projected:</b>			
Brought Forward in hand	13,245,785		
Generated 2014/15 YTD	1,131,792		
Projected - 'Green'	3,544,026	2,480,000	4,750,000
<b>Total in hand/projected</b>	<b>17,921,603</b>	<b>2,480,000</b>	<b>4,750,000</b>
Shortfall / (Surplus) to be financed from Prudential Borrowing	<b>3,951,416</b>	<b>9,403,701</b>	<b>562,500</b>
Further Assets Being Considered for Disposal	<b>12,629,370</b>	<b>6,775,000</b>	<b>3,595,000</b>

- 11.2 Capital receipts of £13.25m were brought forward from 2013/14 and £1.1m has been generated in the first quarter of 2014/15. A further £3.54m is currently projected as 'Green' for 2014/15. A number of proposed disposals have been delayed due to factors internal and external to the Council and this is increasing the risk around the affordability of the capital programme. Based on the current programme for 2014/15 and schemes to be allocated from ring fenced receipts being delivered, this would result in a shortfall of £3.9m. 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 2014/15 and future years is unaffordable, further work is required on the deliverability of the list of assets being considered for disposal.
- 11.3 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 (see 8.1 above); or apply prudential borrowing, which will incur future years revenue costs that are not budgeted in the revenue financial strategy.

## 12. Proposed New Council Financed Schemes

- 12.1 At the point of the Capital Strategy report (Council February 2014), due to uncertainties around future capital finance resources, both in terms of external grant funding and internal capital receipts to be generated from the disposal of surplus assets, the Council was not in a position to produce a new

comprehensive Capital Strategy for future years and the report was a holding position based on the previous strategy.

12.2 The report included a number of new schemes that had been proposed for inclusion in the programme, which would be financed from Corporate Resources. Work is ongoing to develop these new schemes into comprehensive capital appraisal documents that can be considered for formal approval. These schemes will be prioritised based on the schemes fit with the business plans of the service and the revenue savings the schemes will generate and also depending on the level of available capital receipts or other financing.

12.3 An updated Capital Strategy Report will be presented to Council in September, including any new schemes for consideration for approval, both from the original proposed list and as a result of any new proposals that have arisen since. This will also consider the financial implications of the Council financing these schemes.

### **13. Unsupported borrowing and the revenue consequences**

13.1 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 be around 4.5% for 2014/15. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.085m (MRP and interest cost) in the following year, reducing by £1,800 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)**

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 09 April 2014

Capital Outturn Report – 2013/14 – Council 17 July 2014

#### **Cabinet Member (Portfolio Holder)**

Keith Barrow, Leader of the Council.

Portfolio holders

#### **Local Member**

All

#### **Appendices**

1. Capital Budget and Expenditure 2014/15