

**Committee and Date**

Council
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Item

Public



Capital Investment Programme and Mid-Year Review of the Capital Strategy (2022/23 - 2027/28)

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1. Synopsis

The Council's capital investment programme is routinely reviewed. This report brings together an initial draft of future investment plans, taking account of new schemes proposed and changes to existing schemes.

2. Executive Summary

- 2.1. The Shropshire Plan outlines Shropshire Council's vision, priorities and Strategic Objectives. The Capital Strategy is an essential element in delivering that vision, describing how and where the Council will direct significant strategic investment in the coming years. In many ways, therefore, the Capital Strategy defines the Council's vision, setting a direction of travel for the next decade, enabling the creation of a strategic plan for the next five years and subsequently a detailed capital programme each year. The Council's capital investment programme looks

at how the Council can secure long term advantage for local residents and businesses, delivering benefits for the communities of Shropshire over many years.

- 2.2. The capital strategy that was agreed by Council on 2nd March 2023 provided the latest information on capital schemes and priorities based on the detailed capital strategy review that had been undertaken 18 months earlier. It was noted that planning decisions for several high-profile schemes were due to be progressed in the early part of 2023/24 and so it was agreed that a detailed mid-year review of the capital strategy would be undertaken in 2023/24.
- 2.3. A green paper outlining the proposed work around the Capital Strategy was presented to Transformation and Improvement Overview Scrutiny Committee on 12th July 2023. Following this, work has progressed to review the priority schemes previously identified, updating them for known changes to capital spending estimates, including new schemes that will help the Council to deliver The Shropshire Plan priorities and reviewing the potential funding of these schemes, and any implications that this may have on the revenue budget into the future.
- 2.4. The Capital Strategy approved by Council in March 2023 originally identified proposed capital schemes of £301.823m. Following the initial review of proposed schemes and including additional schemes, the priority scheme list has decreased to £266.247m.
- 2.5. The review of the capital strategy also includes a review of the funding of the schemes and it was proposed in the medium term financial strategy that transformational costs would be funded from capital receipts in line with accounting regulations. As the transformation programme within the Council now starts to roll-out, work has been ongoing to identify the potential costs that may be classified as transformational under the Flexibility for the use of Capital Receipts. The potential cost, spread over several years, has been estimated at up to £9.5m. Further work will progress over the remainder of the year to confirm the likely costs to be funded from capital receipts in 2023/24 and future transformation costs over the next 2 years.
- 2.6. Considering the points summarised in the paragraphs above, and detailed in the following sections, the key elements of this report can be summarised as follows:

Total capital programme approved in March 2023	7.2	A	301.8
Revised (draft) capital programme in August 2023	7.6	B	266.2
Changes (due to inflation, scope change etc)	7.6	C	-35.6
New schemes brought forward, not yet fully reviewed, not yet approved, but which may represent a future commitment in the capital programme	7.1	D	159.2
<u>Initial calculation of the revised capital programme (excl changes to NWRR and OLR)</u>	7.11, 9.1ff		<u>425.4</u>

3. Recommendations

- 3.1. Approve the updated priority and aspirational capital scheme schedules for inclusion in the draft Capital Strategy, ahead of wider Member engagement.

- 3.2. Approve progression of the schemes detailed in the priority capital scheme schedule to business case to develop and assure the associated costs and funding proposed.
- 3.3. Approve the additional funding of £2.228m in relation to the Multi Agency Hub and the Pride Hill capital schemes which form part of the Shrewsbury Town Centre Redevelopment Programme.
- 3.4. Approve the additional match funding of £0.647m in relation to the Council's LUF Round 2 grant award which requires total match funding of £5.043m, £4.396m of which has been previously secured / approved.
- 3.5. Note the considerations raised in respect of the future direction of the North West Relief Road (NWRR) and the Oxon Link Road (OLR) detailed at section 9.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1 The Council's revenue budget shows how in-year activities are undertaken and funded. The capital investment programme looks at how the Council can secure long term benefits for local residents and businesses – specifically, capital investment yields benefits over many years. This is an important part of how the Council is delivering on the ambitions set out in The Shropshire Plan.
- 4.2 The review of the Capital investment programme therefore provides an opportunity to ensure that the Council uses its ability to invest in the long term assets of the County in a way which supports delivery of The Shropshire Plan and the associated financial plans (set out in the MTFS).
- 4.3 Failure to determine updated prioritised capital schemes schedule could result in such benefits being lost or delayed - jeopardising 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.

5. Financial Implications

- 5.1 This report sets out the capital and revenue implications of the updated aspirational capital schemes. Prioritisation of which capital schemes are considered important in delivering The Shropshire Plan objectives will be reviewed by management and members, with a view to formalising a revised Capital Strategy and funding profile in December 2023.

6. Climate Change Appraisal

- 6.1. 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.

7. Background

Development of the Council's Capital Strategy

- 7.1. A detailed review of the Capital Strategy was undertaken in 2022/23. Due to the significant revenue pressures addressed in budget planning for 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.
- 7.2. The latest schedule of priority capital schemes presented to Council in March 2023 had 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 (already incorporated in the Council's Medium Term Financial Strategy – 'MTFS'). Details of the schemes included are provided in Appendix A.

High-Level Prioritisation Principles for Future Capital Schemes

- 7.3 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, has been reviewed by the Senior Leadership team and they have had the opportunity to incorporate additional schemes into the schedule that they require to assist in delivery of The Shropshire Plan.
- 7.4 The list of priority capital schemes have also been reviewed to consider whether the estimated capital costs that were originally anticipated for the schemes need to be updated for latest cost information.
- 7.5 This review has created a revised priority capital scheme schedule and refreshed the schedule of the Council's aspirational capital schemes for consideration.
- 7.6 The revised priority capital scheme schedule (shown at Appendix B) has a current total estimated capital cost of £266.247m with a potential borrowing requirement of £129.68834.315m. A breakdown of the amendments made to the priority scheme schedules is provided in Appendix C. It should be noted that it has not yet been possible to determine the estimated capital cost or the proposed funding sources for of all the schemes included in the priority schedule.
- 7.7 The potential borrowing requirement of £34.315m would generate a maximum MRP revenue budget requirement of £2.435m by financial year 2027-28, based on an interest rate of 5% and a term of 25 years.
- 7.8 The Medium Term Financial Strategy (MTFS) approved in March 2023 provided for additional funding for capital investment over the 5 year period. Some of this balance was required for known projects already committed to within the Capital programme, however the balance provides scope to be able to fund any MRP revenue budget requirement arising from the prioritised capital schemes. Table 2 demonstrates the capacity within the MTFS to fund such capital investment,

however it should be noted that delivery timescales of the prioritised schemes would need to be managed in line with the profile of revenue funding being available.

Table 2: Revenue funding available within the MTFS to fund capital investment

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£	£	£	£	£	£
Additional funding for capital investment within approved MTFS	504,100	2,032,000	3,104,000	4,452,000	0	10,092,100
Funding required for approved capital programme	(961,000)	(1,204,940)	(1,079,980)	(219,710)	71,380	(3,394,350)
Capital investment/Transformation Fund within approved MTFS	0	0	0	15,000,000	6,000,000	21,000,000
Revenue funding available for prioritised capital schemes	(456,900)	827,060	2,024,020	19,232,290	6,071,380	27,697,750

7.9 The aspirational capital schemes schedule (shown at Appendix D) has a total estimated capital cost of **£159.247m**. However, some of the schemes included in the schedule do not yet have any estimated costs or, consequently, any identified funding sources.

7.11 The total cost of all identified capital schemes is **£425.494m** and these have been initially categorised into priority schemes and aspirational schemes given the level of resources and funding required to progress the total number of schemes identified.

7.12 The next stage of the mid-year capital strategy review is to consider the prioritised and aspirational list of capital schemes proposed and the timeframe for this is detailed below:

Table 3: next stages in the review and indicative timeline

Key Milestone	Timeline
Prioritisation of Capital Schemes Schedules by Cabinet Incorporating Member Presentation / Workshop	September 2023
Capital Strategy and Budget Task and Finish Group consider and comment on proposed prioritisation of capital schemes	September – October 2023
Mid-Year Capital Strategy Reviewed and Considered by Transformation and Improvement Overview and Scrutiny Committee	29th November 2023
Timeline Mid-Year Capital Strategy Approved by Cabinet & Council	13th – 14th December

7.13 It is proposed that each scheme is now reviewed against the criteria set out below to evaluate which schemes should be pursued as a priority:

- 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.
- Affordable borrowing requirement.
- Impact on the revenue budget in terms of income generation and / or reduced expenditure.
- 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.

Significant Components of the Capital Strategy

8. Shrewsbury Town Centre Redevelopment (STCR) Programme

- 8.1 Since the capital strategy was approved in March, the Council has now secured Levelling Up Fund (LUF) Round 2 funding from the Government for two projects: the Shrewsbury Riverside Enabling Works and the Shrewsbury Town Centre Public Realm scheme, defined elements within the wider STCR Programme. Total funding of £18.701m has been awarded to the Council from LUF and this necessitates match funding totalling £5.043m. £1.250m of this match requirement has been achieved through an asset and land contribution and an additional £1.715m achieved as part of the £3.295m approved by Council in February 2022 to progress both the Multi Agency Hub and the Pride Hill schemes to detailed design (RIBA Stage 3: Spatial Coordination, or equivalent). £1.431 of the remaining match funding (£2.078m) is contained within the £2.228m identified in the paragraphs below and approval for the match funding balance of £0.647m is now sought from Cabinet and Council.
- 8.2 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).
- 8.2 Significant progress has been achieved on these schemes: a development manager was commissioned in November 2022; architectural services have recently been commissioned (July 2023) and multi-disciplinary engineering services are currently being procured.
- 8.3 In close consultation with Council officers, the development manager has now concluded initial 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. This development appraisal has facilitated re-appraisal of the financial resources required to progress these schemes to detailed design (RIBA Stage 3: Spatial Coordination, or equivalent). The refined financial model indicates that £5.523m will be required to achieve the

RIBA Stage 3 milestone: £3.146m in relation to the Multi Agency Hub and £2.377m in relation to Pride Hill.

- 8.4 In February 2022 the Council approved a budget of £3.295m to achieve the RIBA Stage 3 milestone. Therefore, formal approval for a further £2.228m is now sought from Cabinet and Council allow progress in line with previous decisions and the funding awards. PWLB borrowing is the default assumption, but it is anticipated that these schemes will be funded through a mix of options which will be considered and confirmed as the schemes progress.

9. North-West Relief Road (NWRR) and Oxon Link Road (OLR)

- 9.1. It is anticipated that the planning application for the NWRR and OLR will be considered later this year. As has been previously been reported to members, the anticipated costs and benefits of these schemes will be updated further to the planning decision (as the detail of the planning decisions are likely to impact on the scope and profile of the scheme, and therefore the costs arising and the timing of these).
- 9.2. For the purpose of this strategy review, details of the costs and benefits of these schemes will be updated once there is greater clarity on the future shape of them, incorporating construction industry inflationary pressures, and funding arrangements. It is not anticipated that the progress of the scheme will create additional revenue costs within the current year, and the likely level of costs to be incurred would be outside the scope of capital receipts for funding, and so borrowing is most likely to be required.
- 9.3. In advance of the decision of the planning committee, the known costs incurred to date amount to c£24m. Of these, in the event of the proposal being rejected, the usual process would be to write off the abortive capital costs to revenue budgets. It is currently assumed that c£4m of costs to date are logically applicable to the OLR, and so, in the event that NWRR does not progress, the charge to revenue would be c£20m. This is position remains largely unchanged from discussion in committee during 2022/23.

10. Staff Costs Capitalisation

- 10.1. The Council's Medium Term Financial Strategy approved in March 2023 included the requirement to deliver spending reductions of £51.390m as part of the detailed budget for 2023-24. A review of staff engaged on specific capital schemes is anticipated to deliver a saving to revenue by funding these posts from approved capital scheme budgets. Additionally, staff engaged on transformation activities can be capitalised under statutory guidance, which allows the revenue costs of projects that deliver ongoing savings or improved efficiency to be funded through capital receipts.
- 10.2. Initial work has progressed to identify the potential costs that may be classified as transformational under the Flexibility for the use of Capital Receipts. Current, initial proposals have identified options to capitalise of £3.5m, with potential for further capitalisation in later years. The process to confirm this treatment is complex, and

requires that options are identified prospectively, but also verified retrospectively, to ensure that all staff costs are accounted for appropriately.

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

Financial Strategy 2023/24 – 2027/28 and Setting the Council Tax Resolution 2023/24 – Council, 2nd March 2023

Capital Strategy – Transformation and Improvement Overview and Scrutiny Committee, 12th July 2023

Local Member:

Appendices

Appendix A: Priority Schemes as approved in March 2023 Capital Strategy

Appendix B: Updated Priority Capital Schemes Schedule

Appendix C: Amendments made to Priority Scheme Schedules

Appendix D: Aspirational Capital Schemes Schedule