



<u>Committee and Date</u> <b>Cabinet</b> 15 October 2014  12.30 pm
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<u>Item</u>  <b>8</b>  <u>Public</u>
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## CAPITAL MONITORING REPORT – QUARTER 2 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 £69.6m and the future years capital programme budget;
- Expenditure to date of 21.4% of the revised budget;
- A projected outturn in line with the re-profiled budget of £69.6m; and
- The current funding of the programme and its future affordability.

### 2. Recommendations

Members are asked to:

- A. Approve net budget variations of £1.3m to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £69.6m. Including new allocations of capital receipt funding as follows:
  - The Tannery Building Refurbishment – Shrewsbury Hub £511,000
  - Smallholding Refurbishment £149,940
  - Theatre Severn - Digital Projector £38,500
- B. Approve the re-profiled capital budgets of £22.3m for 2015/16 and £5.3m for 2016/17 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £14.9m, representing 21.4% of the revised capital budget for 2014/15, with 42% 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 Periods 4-5 there has been a net budget decrease of £1.3m, compared to the position reported at Period 3 2014/15. Table 1 summarises the overall movement, between that already approved, and changes for Periods 4-5 that require approval.

**Table 1: Revised Capital Programme Period 5 2014/15**

Service Area	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved to Quarter 1 14/15	Period 4-5 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 2
<b>General Fund</b>				
Commissioning	33,394,659	6,766,047	(834,120)	39,326,586
Adult Services	1,419,791	337,728	1,194,031	2,951,550
Children's Services	13,173,406	2,371,476	(2,186,424)	13,358,458
Resources & Support	268,000	2,155,091	544,507	2,967,598
<b>Total General Fund</b>	<b>48,255,856</b>	<b>11,630,342</b>	<b>(1,282,006)</b>	<b>58,604,192</b>
<b>Housing Revenue Account</b>	10,090,890	950,592	-	11,041,482
<b>Total Approved Budget</b>	<b>58,346,746</b>	<b>12,580,934</b>	<b>(1,282,006)</b>	<b>69,645,674</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:

#### **Budget Increases**

- £1.47m (across 2014/15 & 2015/16) in Development Trust funding for the supported living development adjacent to the Raven Centre in Market Drayton (as approved by Council, 25 September 2014).
- £480,000 (across 2014/15 & 2015/16) revenue contribution to Early Years schemes from underspend of 2013/14 funding as agreed by the Department of Education.
- New capital receipt funding allocation of: £511,000 for refurbishment and adaption works to the Tannery Building as part of the administrative accommodation rationalisation programme and releasing existing accommodation for the University; £150,000 for essential works required at a smallholding under the Councils Landlord responsibilities and £38,500 for the purchase of a digital projector for Theatre Severn, the cost of which will be repaid to capital in future years from the additional income generated for the Theatre.

#### **Budget Decreases**

- Removal of the Disabilities Discrimination Act budget (£190,000 funded from capital receipts across 2014/15 to 2016/17) as there is no requirement for a capital budget as the works required are of a revenue nature.

#### **Budget Re-profiling**

- Re-profiling of £3.6m across the programme (as detailed in appendix 1), due to schemes that will not be delivered/delivered in full in 2014/15.

#### **Budget Virements**

- £112,500 has been vired from unallocated funding from the MTRP to address the previously reported overspend on the Whitchurch Civic Centre scheme, however, action will continue to be taken to limit the level of the overspend the Council is liable for.
- £270,000 has been vired from Shrewsbury Growth Point monies to address the previously reported overspend on the Shrewsbury Business Park Phase II scheme. This virement will have no impact on the delivery of the Growth Point schemes as the funding was unallocated. Officers will continue looking at various options to contain

the level of the overspend the Council is liable for, including seeking compensation from the Contractor and the Third Party Contractor.

## 7. Current Capital Programme and Forecast Outturn

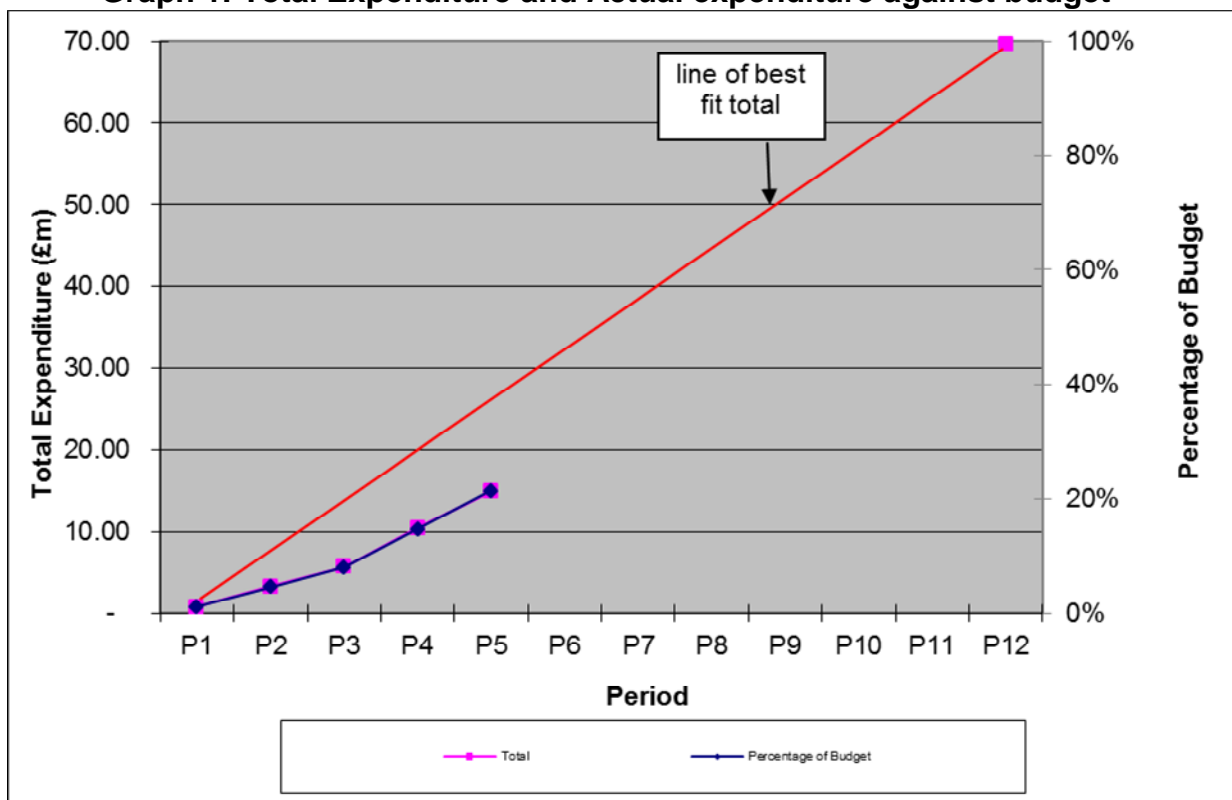
- 7.1 The capital programme is reviewed on a regular basis to re-profile the budget to reflect the multi-year nature of capital schemes, whereby spend may slip into later years. However, it is possible that a level of underspend or overspend may be experienced against the revised capital budget at outturn. 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 2 2014/15**

	2014/15 Revised Capital Programme	2014/15 Forecast Outturn	Variance
<b>General Fund</b>			
Expenditure	58,604,192	58,604,192	0
Financing	(58,604,192)	(58,604,192)	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>

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

- 8.1 The actual capital expenditure at Period 5 is £14.9m, which represents 21.4% of the revised capital budget at Period 5, 42% of the year. Although low, this is broadly in line with previous years, where at this stage of the year delivery has been around 25% of the programme. The position also reflects the programme for the delivery of individual capital schemes within the programme. In particular, in Highways and Schools, the largest areas of the programme, where the full impact of works delivered over the summer period, are not yet reflected in spend. Further Schools schemes have also now been commissioned for delivery this financial year. As reported previously, significant additional Highways funding has been received for 2014/15, the first works funded from these monies have commenced on site and a programme of works has been agreed up to the end of financial year. Other areas where significant expenditure is programmed are the Broadband programme, which is still within the milestones in the contract; Gypsy site redevelopments and the HRA programme, including the new build properties, which are scheduled for completion by March 2015. 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 Quarter 1 and to be approved to Quarter 2.

**Table 3: Revised Capital Programme Financing**

Financing	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved Quarter 1 14/15	Period 4-5 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 2
Self-Financed Prudential Borrowing*	261,142	(98,096)	(14,058)	148,988
Government Grants	34,408,091	4,629,437	(1,055,890)	37,981,638
Other Grants	442,303	208,690	1,431,726	2,082,719
Other Contributions	382,512	308,445	23,000	713,957
Revenue Contributions to Capital	2,805,294	883,714	338,738	4,027,746
Major Repairs Allowance	6,293,314	1,163,212	-	7,456,526
Corporate Resources (expectation - Capital Receipts only)	13,754,090	5,485,532	(2,005,522)	17,234,100
<b>Total Confirmed Funding</b>	<b>58,346,746</b>	<b>12,580,934</b>	<b>(1,282,006)</b>	<b>69,645,674</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	12,970,717	3,532,000	-
Adult Services	590,632	-	-
Children's Services	5,329,458	1,795,273	-
Resources & Support	92,500	-	-
<b>Total General Fund</b>	<b>18,983,307</b>	<b>5,327,273</b>	<b>-</b>
<b>Housing Revenue Account</b>	<b>3,287,090</b>	<b>-</b>	<b>-</b>
<b>Total Approved Budget</b>	<b>22,270,397</b>	<b>5,327,273</b>	<b>-</b>
<b>Financing</b>			
Self-Financed Prudential Borrowing*	-	-	-
Government Grants	5,151,434	1,827,273	-
Other Grants	59,023	-	-
Other Contributions	-	-	-
Revenue Contributions to Capital	563,108	-	-
Major Repairs Allowance	3,200,000	-	-
Corporate Resources (expectation - Capital Receipts only)	13,296,832	3,500,000	-
<b>Total Confirmed Funding</b>	<b>22,270,397</b>	<b>5,327,273</b>	<b>-</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 capital grants settlement and a number of the larger Council financed schemes have reached/are reaching completion. Work is continuing to develop a new capital programme; however the business cases for a number of proposed significant schemes are still in development and dependant on external decisions before the Council commitment to them. Once this programme is finalised it will be presented to Council for consideration. Central Government announcements of future years capital funding is expected by the end of the December and will be reported as part of the annual capital strategy report to Council in February.

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	17,234,100	13,296,832	3,500,000
To be allocated from Ring Fenced Receipts	86,000	3,697,007	1,762,500
<b>Total Commitments</b>	<b>17,320,100</b>	<b>16,993,839</b>	<b>5,262,500</b>
<b>Capital Receipts in hand/projected:</b>			
Brought Forward in hand	13,245,785		
Generated 2014/15 YTD	1,269,412		
Projected - 'Green'	4,216,395	550,000	4,750,000
<b>Total in hand/projected</b>	<b>18,731,593</b>	<b>550,000</b>	<b>4,750,000</b>
Shortfall / (Surplus) to be financed from Prudential Borrowing	<b>(1,411,493)</b>	<b>16,443,839</b>	<b>512,500</b>
Further Assets Being Considered for Disposal	<b>11,677,750</b>	<b>8,067,645</b>	<b>3,595,000</b>

- 11.2 Capital receipts of £13.25m were brought forward from 2013/14 and £1.3m has been generated to Period 5 2014/15. A further £4.2m 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, completion of the disposals rated as 'Green' would be sufficient to finance the existing programme. 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. Based on the 2014/15 capital programme and receipts rated as 'Green' being delivered in full, the current years capital programme is affordable and will generate a surplus of capital receipts that can be set aside at the end of 2014/15 to generate a one-off revenue MRP saving in 2015/16 and be used to finance the future years capital programme. The future years' capital programme is still unaffordable and 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 further re-profile the capital programme, some of which will occur naturally as schemes progress; or apply prudential

borrowing, which will incur future year's 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 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

Capital Monitor Report – Quarter 1 – Cabinet 30 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