



<u>Committee and Date</u> Cabinet 10 June 2015 Audit Committee 25 June 2015 Council 23 July 2015

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

CAPITAL OUTTURN REPORT – 2014/15

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1. Summary

- 1.1 The purpose of this report is to inform Members of the final outturn position for the Council’s 2014/15 capital programme and the current position regarding the 2015/16 to 2017/18 capital programme taking into account the slippage following the closure of the 2014/15 programme, and any budget increases/decreases for 2014/15 and future years. The report reflects:
- The re-profiled 2014/15 budget of £66.4m and the future years capital programme budget;
 - The outturn capital expenditure of £54.2m, representing 81.7% of the re-profiled budget for 2014/15;
 - An underspend of £12.2m, of which £12.1m has been slipped to 2015/16 and £100k 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 £209,067 to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £66.4m.
- B. Approve the re-profiled capital budgets of £66.6m for 2015/16, including slippage of £12.1m from 2014/15, £34.6m for 2016/17 and £27.5m for 2017/18 as detailed in Appendix 1/Table 4.
- C. Accept the outturn expenditure set out in appendix 1 of £54.2m, representing 81.7% of the revised capital budget for 2014/15.

- D. Approve retaining a balance of capital receipts set aside of £14.1m as at 31st March 2015 to generate a Minimum Revenue Provision saving of £564,000 in 2015/16.

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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 Business Plan and Financial Strategy 2014/15 to 2016/17 report, approved by Council 27 February 2014. This included updated allocations of capital grants and a review of and delivery schedule for schemes.
- 5.2 The Council's capital programme is subject to regular review and an updated programme was included in the Business Plan and Financial Strategy 2015/16 to 2016/17, approved by Council on 26 February 2015.

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 2014/15 and re-profiling into future years. In Quarter 4 there has been a net budget decrease of £209k, compared to the position reported at Quarter 3 2014/15. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 4 that require approval.

Table 1: Revised Capital Programme Quarter 4 2014/15

Service Area	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved to Quarter 3 14/15	Quarter 4 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 4
General Fund				
Commissioning	33,394,659	286,971	(128,073)	33,553,557
Adult Services	1,419,791	2,882,884	-	4,302,675
Children's Services	13,173,406	(2,212,678)	(11,679)	10,949,049
Resources & Support	268,000	6,987,219	(69,315)	7,185,904
Total General Fund	48,255,856	7,944,396	(209,067)	55,991,185
Housing Revenue Account	10,090,890	351,092	-	10,441,982
Total Approved Budget	58,346,746	8,295,488	(209,067)	66,433,167

6.2 Full details of all budget changes are provided in Appendix One to this report, there have been no significant changes in Quarter 4.

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: Capital Programme Outturn Position by Service area 2014/15

Service Area	Revised Capital Programme – Outturn 2014/15	Actual Expenditure 31/03/15	Variance	Spend to Budget %
General Fund				
Commissioning	33,553,557	27,225,632	6,327,925	81.1%
Adult Services	4,302,675	3,292,288	1,010,387	76.5%
Children's Services	10,949,049	8,561,473	2,387,576	78.2%
Resources & Support	7,185,904	6,061,955	1,123,949	84.4%
Total General Fund	55,991,185	45,141,347	10,849,838	80.6%
Housing Revenue Account	10,441,982	9,111,534	1,330,448	87.3%
Total	66,433,167	54,252,882	12,180,285	81.7%

7.2 Total capital expenditure for 2014/15 was £54.2m, which equated to 81.7% of the re-profiled capital programme of £66.4m. £12.1m of the £12.2m underspend has been slipped to 2015/16. The balance has been released from the capital programme as it is no longer required, This mainly relates to a £100,000 revenue contribution to a Highways scheme, that can be released

back to revenue following an underspend in other areas of the Highways capital programme. Full details of expenditure variances at scheme level are in Appendix 1. A summary of significant variances by service area are provided below:

- 7.3 **Commissioning** – Total underspend against the Commissioning capital programme was £6.3m. The most significant area of underspend was £3.2m against Highways & Transport, this was due to the failure to deliver schemes scheduled for 2014/15 as a result of ongoing issues with delivery of capital schemes with the Councils Highways contractor and delays in delivery of some tendered work caused by a national shortage of materials. The full underspend has been slipped to 2015/16 and a programme is being put in place to deliver these works in early 2015/16, so it does not impact on delivery of the 2015/16 programme. The remaining balance of monies carried forward, have been allocated to priority schemes in 2015/16.

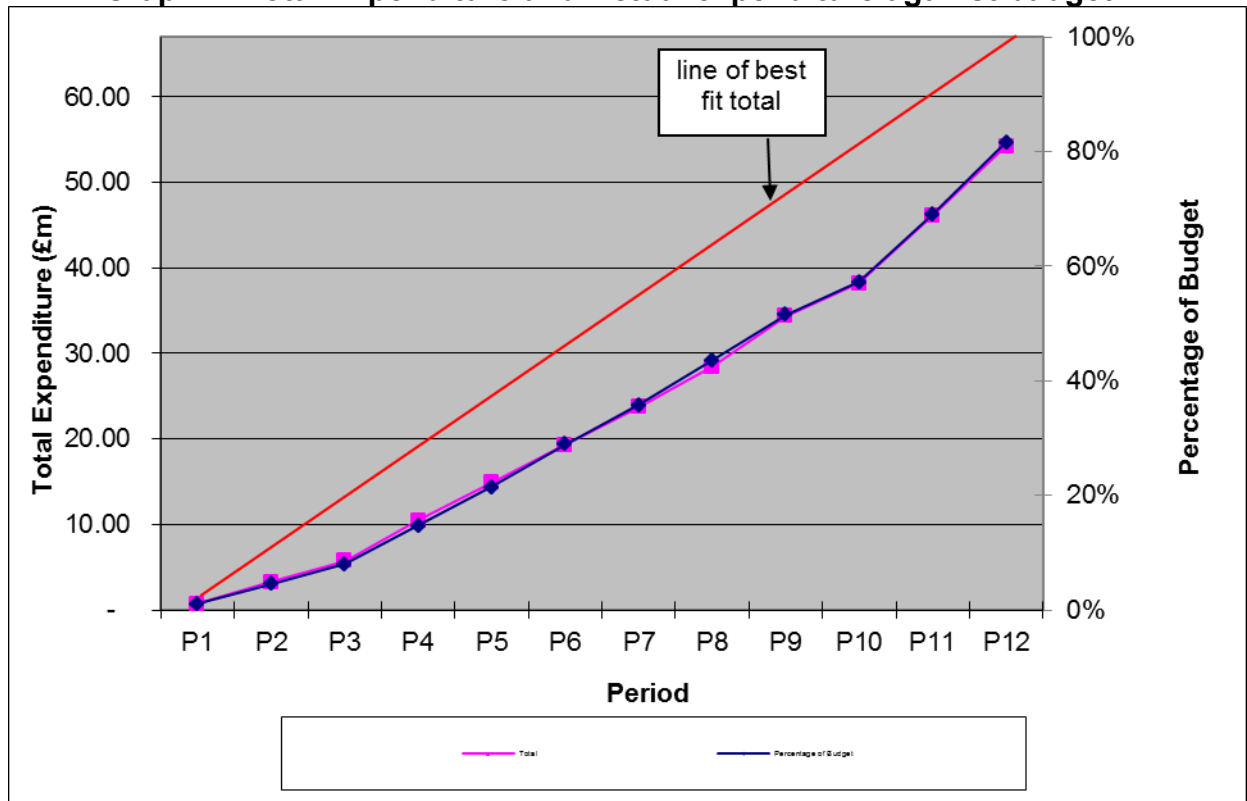
The other significant area of underspend was £2.6m against schemes under Business Growth & Prosperity. This included £990k on Broadband from delays in delivery by BT, £434k on Affordable Housing schemes from delays in grants being drawn down by developers, £250k on Small Business Loans due to lower take up of loans and £462k on Visitor Economy schemes from delays in agreeing final scheme accounts.

- 7.4 **Adult Services** – The total underspend against Adult Services was £1m; 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 £2.4m. This was spread through-out the different areas of the programme and despite significant re-profiling earlier in the year. The underspend mainly resulted from the failure to deliver a number of schemes commissioned later in the year.
- 7.6 **Resources & Support** – The underspend against the Resources & Support capital programme was £1.1m, the main area of this was on the Gypsy Site schemes, where contractor delays pushed completion into 2015/16.
- 7.7 **Housing Revenue Account** – The Housing Revenue Account underspent by £1.3m, 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 £54.2m, which represents 81.7% 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 2014/15 capital programme. Table 3 summarises the financing sources and changes made to Quarter 3 and to be approved in Quarter 4.

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*	261,142	4,320,079	-	4,581,221
Government Grants	34,408,091	1,869,891	(71,461)	36,206,521
Other Grants	442,303	1,548,796	(37,346)	1,953,753
Other Contributions	382,512	530,444	(5,586)	907,370
Revenue Contributions to Capital	2,805,294	1,637,414	111,571	4,554,279
Major Repairs Allowance	6,293,314	1,163,212	-	7,456,526
Corporate Resources (Capital Receipts/ Prudential Borrowing)	13,754,090	(2,774,348)	(206,245)	10,773,497
Total Confirmed Funding	58,346,746	8,295,488	(209,067)	66,433,167

* 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 (2015/16 includes £12.1m slippage from 2014/15):

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

Service Area	2015/16	2016/17	2017/18
General Fund			
Commissioning	36,743,329	25,345,216	16,293,000
Adult Services	4,971,146	110,000	-
Children's Services	12,418,468	5,228,259	7,666,783
Resources & Support	4,545,752	60,430	-
Total General Fund	58,678,695	30,743,905	23,959,783
Housing Revenue Account	7,911,817	3,843,000	3,550,000
Total Approved Budget	66,590,512	34,586,905	27,509,783
Financing			
Self-Financed Prudential Borrowing*	3,111,929	60,430	-
Government Grants	33,353,479	22,010,259	21,509,999
Other Grants	639,634	-	-
Other Contributions	97,678	-	-
Revenue Contributions to Capital	3,034,127	-	-
Major Repairs Allowance	5,777,757	3,600,000	3,550,000
Corporate Resources (Capital Receipts/ Prudential Borrowing)	20,575,908	8,916,216	2,449,784
Total Confirmed Funding	66,590,512	34,586,905	27,509,783

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

10.2 Full details of all budget changes are provided in Appendix One to this report. Significant changes are:

Budget Increases

- Department for Education have confirmed grant allocations for 2015/16 to 2017/18. The Council will receive Condition funding of £3.4m per annum to 2017/18, with the final 2 years allocations indicative, subject to changes as a result of schools moving responsible body, opening or closing. £760k in DFC funding for schools in 2015/16 and Basic Need funding of £1.8m in 2017/18, in addition to the similar amounts previously confirmed for the previous 2 years.
- Learning & Skills are to capitalise £500k in ring-fenced DSG revenue grant to finance a programme of works required in school kitchens following the introduction of Universal Infant Free School Meals.
- The budget for the refurbishment of Mardol house to student accommodation has increased by £500k. £200k is financed from borrowing, utilising the full £7.5m borrowing approved by Council. A further £300k has been added to the scheme financed by a revenue contribution.
- £200k of New Homes Bonus monies have been allocated to the Whitchurch Area Empty Property Incentive Grant as approved as part of the allocation of New Homes Bonus monies.
- Capital receipts of £67k have been added to the programme for installation of Solar PV at Shawbury St Marys Primary School.

Budget Re-profiling

- £2.45m in funding allocated for Basic Need provision re-profiled from 2015/16 to 2017/18, based on projected profile of additional school spaces requirement.

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 2014/15 to 2017/18. 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 £	2017/18 £
Corporate Resources Applied to finance Capital Programme	3,510,538			
Capital Receipts applied direct to CAA	64,403			
Corporate Resources Allocated in Capital Programme		20,575,908	8,916,216	2,449,784
To be allocated from Ring Fenced Receipts	-	2,575,778	1,145,410	1,762,500
Total Commitments	3,574,941	21,661,908	13,068,589	2,449,784
Capital Receipts in hand/projected:				
Brought Forward in hand	13,245,785	14,106,162		
Generated 2014/15	4,435,318			
Future Years - 'Green'	-	3,372,843	3,000,000	800,000
Total in hand/projected	17,681,103	17,479,005	3,000,000	800,000
Surplus to be carried forward to 2014/15	(14,106,162)			
Shortfall / (Surplus) to be financed from Prudential Borrowing		4,182,903	10,068,589	1,649,784
Further Assets Being Considered for Disposal		9,788,245	4,245,000	4,400,000

11.2 Capital receipts of £4.4m have been generated in 2014/15. 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 Following the outturn underspend position for the capital programme for 2014/15 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 £14.1m in capital receipts in hand at 31/03/15. These will be set-aside, enabling the Council to achieve an additional MRP saving of £564,000 in 2015/16.

- 11.4 The above capital receipt projections for 2015/16 to 2017/18 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.
- 11.5 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 projected to be around 4% for 2015/16. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.08m (MRP and interest cost) in the following year, reducing by £1,600 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 at lower level of borrowing could also be sustained through internal borrowing against Council balances, removing the need for any new external borrowing.

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
Capital Monitor Report – Quarter 2 – Cabinet 15 October 2014
Capital Monitor Report – Quarter 3 – Cabinet 11 February 2015
Business Plan and Financial Strategy 2015/16 to 2016/17 – Council 26 February 2015

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.
Portfolio Holders

Local Member

All

Appendices

1. Capital Budget and Expenditure 2014/15