



<u>Committee and Date</u> <b>Cabinet</b> 29 July 2015  12.30 pm
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<u>Item</u>  <b>9</b>  <u>Public</u>
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## CAPITAL MONITORING REPORT – QUARTER 1 2015/16

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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 2015/16 to 2018/19 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 2015/16 and future years. The report reflects:

- The re-profiled 2015/16 budget of £65m and the future years capital programme budget;
- Expenditure to date of 10.6% of the revised budget;
- A projected outturn in line with the re-profiled budget of £65m; and
- The current funding of the programme and its future affordability.

### 2. Recommendations

Members are asked to:

- A. Approve net budget variations of £1.6m to the 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £65m. Including new allocations of capital receipt funding as follows:
  - £279,970 for six new Solar PV installations on school roofs
- B. Approve the re-profiled capital budgets of £37.1m for 2016/17 and £27.8m for 2017/18 and £70k for 2018/19 as detailed in Appendix 1/Table 4.
- C. Accept the expenditure to date of £6.9m, representing 10.6% of the revised capital budget for 2015/16, 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 2015/16 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 2015/16 and future years, was updated as part of the Business Plan and Financial Strategy 2015/16 to 2016/17, approved by Council on 26 February 2015. This included updated allocations of capital grants and a review of and delivery schedule for schemes.

**6. Original and latest proposed capital programme for 2015/16**

6.1 The capital budget for 2015/16 is subject to change, the largest element being slippage from 2014/15 and re-profiling into future years. In Quarter 1 there has been a net budget decrease of £1.6m, compared to the position reported at Outturn 2014/15. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 1 that require approval.

**Table 1: Revised Capital Programme Quarter 3 2014/15**

Service Area	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved to Outturn 14/15	Quarter 1 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 1
<b>General Fund</b>				
Commissioning	30,587,810	6,626,745	(1,366,694)	35,847,861
Adult Services	3,740,632	759,288	(550,000)	3,949,920
Children's Services	7,777,002	4,641,466	7,241	12,425,709
Resources & Support	2,856,717	1,689,035	279,970	4,825,722
<b>Total General Fund</b>	<b>44,962,161</b>	<b>13,716,534</b>	<b>(1,629,483)</b>	<b>57,049,212</b>
<b>Housing Revenue Account</b>	6,581,090	1,330,727	1,210	7,913,027
<b>Total Approved Budget</b>	<b>51,543,251</b>	<b>15,047,261</b>	<b>(1,628,273)</b>	<b>64,962,239</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**

- Total funding of £470k through to 2020/21 from the Environment Agency for the Slow the Flow Project.
- New allocation of capital receipts of £279,970 for the installation of Solar PV on six primary schools. The implementation of these schemes will generate energy savings for the school and a Feed-in-Tariff income stream for the Council for 25 years, with a payback of around 11 years

**Budget Re-profiling**

- £2.2m has been re-profiled across the programme for schemes that will now not be delivered until 2016/17; the most significant areas are:
  - **Commissioning:** £1.5m under the Infrastructure & Growth - Growth Point budget. Split £0.5m Shrewsbury Growth Point, which is set aside for key economic growth projects for example Sustainable Urban Extension Schemes (SUEs), and the £1m in grant funding to be provided to Historic England for the regeneration of the Shrewsbury Flax mill. This has also been re-profiled, as the timeframe for expenditure is dependent on Historic England's project delivery, which is not expected to be this financial year. £120k has been re-profiled on affordable housing as the start of the Drapers Almshouses scheme has been delayed and now only 50% of the funding will be drawn down in 2015/16.
  - **Adult Services:** £0.55m has been re-profiled against the next three supported living bungalows. As the schemes will not feasibly be delivered until 2016/17, once sites are identified and planning permission obtained. For the London Road bungalow, the Council will no longer receive any Development Trust funding as the scheme cannot be delivered in time for their funding deadline. However, other funding options are being explored or the shortfall can be met from the Better Care Fund grant.

**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 2015/16.

**Table 2: Current Capital Programme and Forecast Outturn Quarter 1 2015/16**

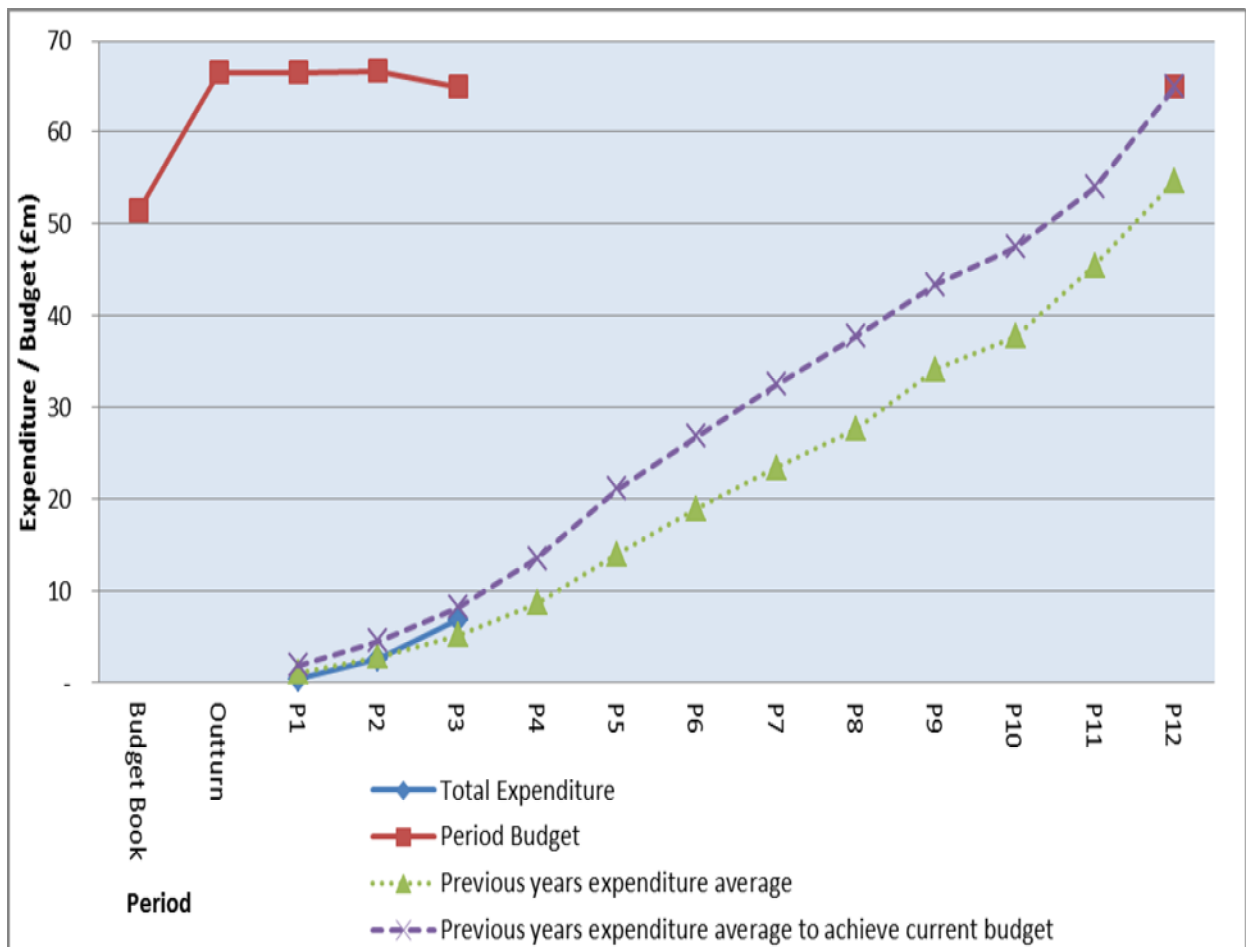
	2015/16 Revised Capital Programme	2015/16 Forecast Outturn	Variance
<b>General Fund</b>			
Expenditure	57,049,212	57,049,212	0
Financing	(57,049,212)	(57,049,212)	0
<b>Shortfall/(surplus) In Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Housing Revenue Account</b>			
Expenditure	7,913,027	7,913,027	0
Financing	(7,913,027)	(7,913,027)	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 Quarter 1 is £6.9m, which represents 10.6% of the revised capital budget at Quarter 1, 25% of the year. This is low in comparison to the total budget, but is ahead of expenditure in recent previous years. This position reflects the programme for the delivery of individual capital schemes within the programme, with significant expenditure in quarter one on the Broadband and Mardol House Student Accommodation projects; but generally the majority of expenditure is not evenly distributed across the year and there is a higher concentration of spend profiled later in the financial year.
- 8.2 The programme will continue to be monitored throughout the year and re-profiled accordingly and as per section 6 there has already been some re-profiling within the programme.
- 8.3 Delays continue to be experienced in the delivery of the highways programme and requests for payments under the Ringway contract and as a result RAG status for progress of the programme has been rated 'Amber'. Contingency plans are being looked at for later in the year in the event that Ringway cannot deliver the current programme. However, schemes will need to be permitted and tendering schemes outside of the contract will be more expensive to the Council.
- 8.4 The infrastructure works at Mytton Oak Remembrance Park have been completed; however surface water drainage issues have been identified. Further drainage investigation works have been commissioned to resolve the drainage issue and these can currently be met from the remaining contingency within the budget.
- 8.5 Under Economic Growth & Prosperity the Small Business Loans schemes and the Growth Point schemes have both been rated as 'Amber' on delivery. As previously reported the drawdown of the loans has been lower than expected. A decision needs to be taken as to what level of funding the Council wishes to provide to any future loan schemes. Expenditure on the Growth Point schemes is directly linked to their progress, often involving external partners and influences i.e. changes in the economy and development viability. The allocation of this capital will be kept under review as part of the ongoing economic growth work.

- 8.6 Adult Services is another area where there have been significant levels of re-profiling and underspend in recent years. Some funding has already been re-profiled to 2016/17 and the service has been tasked with reviewing their programme for delivery in this year and plans for future year's scheme that will generate revenue savings.
- 8.7 Learning & Skills have been working with Premises Services to commission a number of their schemes in advance to enable delivery over the summer holiday period, as well as identifying non-intrusive works that can be delivered during term time. Thus the programme is at a more advanced stage of delivery at this point than in recent years and delivery will continue to be closely monitored throughout the year, with an assessment taken after the Summer Holidays works as to whether any unallocated monies can be re-profiled.
- 8.8 A significant element of the HRA programme is the New Build Phase 2, the budget has been profiled based on initial cash flow projections; however, this may need to be revised once the contract is issued and works commence, which is likely to be in quarter 3.
- 8.9 Graph One below shows actual expenditure by period and also tracks the period by period changes to the budget.

**Graph 1: Total Expenditure and budget changes**



## 9. Financing of the capital programme

- 9.1 Appendix 1 provides a full summary of the financing of the 2015/16 capital programme. Table 3 summarises the financing sources and changes made to Outturn 2014/15 and to be approved to Quarter 1.

**Table 3: Revised Capital Programme Financing**

Financing	Agreed Capital Programme - Council 26/02/15	Slippage and budget changes approved Outturn 14/15	Quarter 1 budget changes to be approved	Revised 2015/16 Capital Programme Quarter 1
Self-Financed Prudential Borrowing*	2,658,717	453,212	-	3,111,929
Government Grants	27,101,502	6,251,977	83,139	33,436,618
Other Grants	299,023	340,611	5,987	645,621
Other Contributions	-	97,678	172,821	270,499
Revenue Contributions to Capital	1,070,745	1,963,382	(70,190)	2,963,937
Major Repairs Allowance	4,712,856	1,064,901	-	5,777,757
Corporate Resources (expectation - Capital Receipts only)	15,700,408	4,875,500	(1,820,030)	18,755,878
<b>Total Confirmed Funding</b>	<b>51,543,251</b>	<b>15,047,261</b>	<b>(1,628,273)</b>	<b>64,962,239</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 is summarised by year and financing in Table 4 below:

**Table 4: Capital Programme 2016/17 to 2018/19**

Service Area	2016/17	2017/18	2018/19
<b>General Fund</b>			
Commissioning	27,335,216	16,613,000	70,000
Adult Services	660,000	-	-
Children's Services	5,228,259	7,666,783	-
Resources & Support	60,430	-	-
<b>Total General Fund</b>	<b>33,283,905</b>	<b>24,279,783</b>	<b>70,000</b>
<b>Housing Revenue Account</b>	<b>3,843,000</b>	<b>3,550,000</b>	<b>-</b>
<b>Total Approved Budget</b>	<b>37,126,905</b>	<b>27,829,783</b>	<b>70,000</b>
<b>Financing</b>			
Self-Financed Prudential Borrowing*	60,430	-	-
Government Grants	22,080,259	21,579,999	70,000
Other Grants	-	-	-
Other Contributions	-	-	-
Revenue Contributions to Capital	370,000	250,000	-
Major Repairs Allowance	3,600,000	3,550,000	-
Corporate Resources (expectation - Capital Receipts only)	11,016,216	2,449,784	-
<b>Total Confirmed Funding</b>	<b>37,126,905</b>	<b>27,829,783</b>	<b>70,000</b>

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

- 10.2 Following the Business Plan and Financial Strategy 2015/16 to 2016/17 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.
- 10.3 In the Finance Strategy Update report also on this Cabinet agenda, Members have been asked to provisionally approve the business cases and financing for the Oxon Link Road and Shrewsbury Integrated Transport Package. These are not included in the above figures as will not be built into the capital programme until the business cases are approved and the external funding confirmed.

## 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 2015/16 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	2015/16 £	2016/17 £	2017/18 £
Corporate Resources Allocated in Capital Programme	18,755,878	11,016,216	2,449,784
To be allocated from Ring Fenced Receipts	686,000	4,735,173	-
<b>Total Commitments</b>	<b>19,441,878</b>	<b>15,751,389</b>	<b>2,449,784</b>
<b>Capital Receipts in hand/projected:</b>			
Brought Forward in hand	14,106,162		
Generated 2015/16 YTD	713,661		
Projected - 'Green'	2,150,906	2,000,000	800,000
<b>Total in hand/projected</b>	<b>16,970,730</b>	<b>2,000,000</b>	<b>800,000</b>
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	<b>2,471,148</b>	<b>13,751,389</b>	<b>1,649,784</b>
Further Assets Being Considered for Disposal	<b>9,209,845</b>	<b>9,275,400</b>	<b>5,395,000</b>

- 11.2 Capital receipts of £14.1m were brought forward from 2014/15 and £0.7m has been generated in the first Quarter of 2015/15. A further £2.1m is currently projected as 'Green' for 2015/16. 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 £2.5m.

- 11.3 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 2015/16 and future years is unaffordable, further work is required on the deliverability of the list of assets being considered for disposal. Given that the larger disposals generally take between 12 and 18 months to be realised, it is important that work progresses at present, to avoid a funding shortfall in future years.
- 11.4 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; or undertake prudential borrowing, which will incur future year's revenue costs that are not budgeted in the revenue financial strategy.
- 11.5 In addition to the agreed capital programme there are a number of significant scheme business cases that are being developed. If these schemes are to progress they will all require some degree of Council funding, which is not currently allocated in the existing capital programme.

## **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.
- 12.2 Council has approved borrowing of £7.5m for the purchase and refurbishment of Mardol House. This can be financed via internal borrowing against Council balances, avoiding the requirement for new external borrowing and the ongoing revenue costs of the borrowing will be financed from the additional income generated by the scheme.

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

Business Plan and Financial Strategy 2015/16 to 2016/17 – Council 26 February



Cabinet 29 July 2015: Capital Monitoring – Quarter 1 2015/16
2015 Capital Outturn Report – 2014/15 – Council 23 July 2015
<b>Cabinet Member (Portfolio Holder)</b> Keith Barrow, Leader of the Council. Portfolio holders
<b>Local Member</b> All
<b>Appendices</b> 1. Capital Budget and Expenditure 2015/16