Somerset County Council

Cabinet
– 14 June 2017

Capital Investment Programme 2016/17 – Outturn Report

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Division and Local Member(s):	All
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Forward Plan Reference:	FP/17/04/05		
Summary:	This report outlines the County Council Capital Investment Programme outturn position for 2016/17 and updates Members on changes since the Quarter 3 report presented in February 2017.		
Recommendations:	**The Cabinet is requested to approve the various virements (£1.601m) and various supplements (£3.906m) as detailed in section 2.9.** With exception of the Schools Access Initiative virement these changes are reflected in the outturn figures provided below and in the accompanying annexes. **The Cabinet is also asked to note the contents of this report.**		
Reasons for Recommendations:	To inform members of the 2016/17 Capital Investment Programme outturn position.		
Links to Priorities and Impact on Service Plans:	The Capital Investment Programme is the means by which the Council provides the assets and infrastructure required to deliver the County Plan.		
Consultations undertaken:	Information and explanations have been sought from service managers on individual aspects of this report and their comments included as appropriate.		

Financial Implications:	The financial implications are dealt with in detail in the body of the report and are in line with expectations.
Legal Implications:	There are no specific Legal implications arising directly from the report.
HR Implications:	There are no specific HR implications arising directly from the report.
Risk Implications:	Overall the performance in relation to the Capital Investment Programme remains good and services are managing to maintain control over expenditure within the resources available. The key risks remain unchanged, a potential demand for the provision of new schools to meet the basic need for places arising as a result of new residential developments and the ability of the Council to realise capital receipts.
Other Implications (including due regard implications):	Equalities Impact Assessments for projects in the existing programmes were undertaken during the budget setting process and are updated as projects are implemented as necessary.
Scrutiny comments / recommendation (if any):	Not applicable.

1. Background

1.1. This report provides a corporate overview of the financial aspects of the Capital Investment Programme (CIP) for the 2016/17 financial year. It highlights movements in the programme since the end of December contained in the third quarter report to Cabinet on 6 February 2017.

2. Options considered and reasons for rejecting them

2.1. This report summarises the outturn position for 2016/17 for the Capital Investment Programme. The following paragraphs cover the following elements of the Capital Investment Programme.

- Live Approvals under active management in the Capital Investment Programme
- Outturn Expenditure
- Movement between actual Outturn and previous forecast
- Net Over and Underspend Forecasts
- Capital Expenditure Financing
- Capital Receipts
- Capital Fund
- Prudential Code Outturn Indicators
- Performance Indicators

2.2. Active Approvals 2016/17

2.2.1 Approvals are the amounts available to services to deliver the CIP. They include the planned investment and known sources of finance agreed at County Council in February 2016 and earlier programmes. These approvals are supplemented during the financial year by additional approvals for which additional resources have become available generally from grants or third party contributions. As part of the budget approval process the Council gave “in principle” approval in anticipation of such eventualities to avoid the necessity for additional formal approval to be given for each additional resource.

2.2.2 CIP active approvals at the end of December 2016 stood at £518.754m. There have been a number of movements between the end of December and the end of March amounting to a net increase in approvals of £33.105m. This figure comprises of various values that mainly relate to movements in grants or contributions from, or returned to, third party organisations and additional revenue funding due to technical adjustments. The details of the movements are contained in Appendix C.

2.2.3 There have been a number of virements during the final quarter of 2016/17. The virements have been examined to identify their purpose and as a result of this it can be noted that they do not require formal ratification by members as they are classed as technical changes. The virements do not result in a net increase or decrease in the level of approvals or the financing structure of the CIP. They have been undertaken to enable the effective management of generic approvals by creating individual projects as detailed proposals are developed and cost estimates become available. At the latter end of the process as projects are completed virements are also used to manage the consequential difference between final and estimated costs to enable the generic approvals to be repackaged to deliver further individual projects within the intended objectives.

2.2.4 The resulting programme contains approvals of £551.859m; details at service level are contained in Appendix C. Of this sum £298.657m was spent in prior years leaving £253.202m available to complete the package of projects which are expected to cost £253.040m giving a minor variance of £0.158m or 0.03% of approvals.

2.3. Forecast and Outturn Expenditure

2.3.1. The change between the previously reported forecast outturn of £120.365m and the actual outturn of £144.271m comprises two elements, an increase arising from the new approvals added to the programme since December of £33.105m and a decrease against all previous forecasts of £9.199m giving the net increase of £23.906m. It should be noted that the movements in predicted expenditure do not mean that the resources are no longer required to complete projects merely that the timing of the expenditure has changed.

2.3.2. Movement in spend predictions is normal for the CIP, it is caused by a number of uncertainties including planning, procurement delays, ground conditions or contractor failure and the ability of services to anticipate the outturn position some months in advance of the year end. Details of the movements at service level in addition to further information on the causes of the movements on individual projects can be provided if requested. There are a couple of specific changes that have contributed significantly to the total. These are:

- Local Enterprise Partnership – £2.854m moved from 2017/18 to 2016/17. Due to the majority of spend against this Capital Grant being led by external authorities; the forecasting is very difficult to predict and spend is reliant of the completion of retrospective claim forms. This has therefore caused some movement in the scheme.
- Yeovil Wyndham and Primrose Hill - £1.387m has moved from various future years to 16/17. The forecast anticipated receipt of £1.200m Section 106 contributions was expected to be added as a supplemental approval, however that funding has not yet been received meaning that the additional spend fell instead against the grant funding.

2.4. Forecasting Net Over or Under Spends

2.4.1. The net over/under spending is calculated using the actual expenditure to date added to the predicted expenditure in future years. The total of these is then compared to the recorded approvals, with the variance being the over/under spend.

2.4.2. Current forecasts are that the total projected cost of the programme is £551.697m. Of this £298.657m has already been incurred leaving £253.040m required to complete the programme as shown in Appendix B. The net approvals available is £253.202m giving the projected net underspend of £0.158m. It represents a projected net underspend over the whole CIP of -0.03% of active approvals.

2.5. Capital Expenditure Financing

2.5.1. Actual expenditure at outturn was £144.271m. The actual financing for 2016/17 is shown at the base of the Table in Appendix B. The most significant source of finance in the CIP is capital grants which are being used to finance £80.947m or 56% of the total. The balancing finance is coming from a range of sources including revenue, third party contributions, loans pool funding, and capital receipts. Capital grants are now provided by Central Government for the key investment programmes in education and transport.

2.5.2. The outstanding long term loans on the Council's Balance Sheet for capital purposes at 31 March 2017 were £332.543m. This includes Somerset Waste Partnership loans of £2.891m. There were no repayments or additional loans taken out in the year.

2.6. Capital Receipts

2.6.1. Capital Receipts are the sums received from the sale of assets where the proceeds exceed £0.010m. Net useable receipts during 2016/17 after taking into account the costs of sale amounted to £3.204m. This included the following:

- County Farm sales £1.284m; and
- Other general sales £1.920m

2.6.2. As at 31 March 2017 the balance of available capital receipts was £1.032m. This sum is fully committed against future planned expenditure, including the impact of the 2017/18 Capital Investment Programme. If these commitments are to be fully met and financed as planned it is estimated that depending on the timing of the expenditure a further £13.400m of sales will be required in 2017/18 to 2019/20 to supplement the year-end balance, which will be more difficult than in previous years. This balance includes the requirement for revenue with the flexible use of Capital Receipts.

This is a realistic position but the opportunities to expand the resources from central government from capital receipts are limited given the current assumption on future sales.

2.6.3. The Secretary of State has issued guidance for the flexible use of Capital Receipts. This flexibility allows any Capital Receipts received within 2016/17 to 2018/19 to be used on qualifying expenditure that would normally be classed as revenue. This qualifying expenditure is expenditure on any project that is designed to generate on going revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.
£2.388m was utilised in 2016/17 with a further £3.000m in each of the two subsequent years planned.

2.7. Capital Fund

2.7.1. The Capital Fund is part of the overall framework that enables the County Council to deliver a robust budget and maintain adequate reserves and balances. It is a reserve created from revenue resources which means that it can also be used flexibly to:

- support new investment or manage unexpected costs arising from existing Capital Investment Programmes;
- support the preparation costs of major capital investments which cannot be treated as capital investment; and
- support capital receipt financing in the event asset sales are not realised as estimated.

2.7.2. The Capital Fund balance at 31 March 2017 stood at £2.295m. The total of the Capital Fund reserve is included within the earmarked reserves in Table 4 of the Revenue Outturn report for 2016/17. At the present time there are no provisional commitments that are awaiting confirmation. This balance is planned to be used in 2017/18 to cover potential cash flow implications around the J25 M5 and Yeovil Western Corridor projects and the schools feasibility fund.

Whilst some of the costs may not materialise no further funds can be committed to other uses until the position on each has been finalised.

2.8. Prudential Borrowing Indicators

2.8.1. The Prudential Borrowing Indicators are published and agreed by County Council as part of the annual budget report. The Prudential Borrowing Code of Practice requires that the actual outturn figures should be reported for the following indicators:

- Capital Expenditure for 2016/17 is £144.271m (2015/16 £105.993m),
- Percentage of Financing Costs to Net Revenue Stream is 7.09% (2015/16 8.5%),
- Capital Financing Requirement as at 31 March 2017 is £354.051m (31 March 2016 £345.638m), and
- External Debt as at 31 March 2017 is £385.899m (excluding accrued interest of £3.959m) (2015/16 £389.695m).

The above external debt figures are defined in such a way as to include not only the debt raised for capital purposes but other forms of debt including money managed on behalf of other authorities, short term debt and Other Long Term Liabilities such as finance leases.

2.8.2. When compared to the 2015/16 Outturn position one of the biggest contributions to the higher Capital Expenditure figure is the Broadband Programme. This is an additional £11.694m additional spend within the CIP that did not feature in 2015/16. In addition to this, the LEP programme in 2016/17 had £8.660m additional spend while £7.325m for a donated asset for West Monkton School was also recognised. After taking these into account, the outturn position for 2015/16 is then some £9.913m higher than 2015/16. This reflects the nature of Capital Investment Programmes which can be variable in consequence of individual schemes.

2.9. Other Matters

2.9.1. **Schools Access Initiative Virement**

Since the SAI bid was submitted in 2016, Local Authorities have been burdened with additional duties in relation to reasonable adjustments at academies. As a result, the original SAI budget has proved to be insufficient and additional financial resources have been required to ensure that pupils with Education, Health & Care Plans are able to have their physical and medical needs met in their local mainstream school.

Members are therefore requested to approve a virement of £0.200m to move within the Schools programme for the use on Schools Access Initiative schemes.

2.9.2. **Wiveliscombe Enterprise Centre Site Purchase**

Members to note the officer decision to purchase a site for the Wiveliscombe Enterprise Centre. £0.250m has been allocated from the Business Growth Fund to go towards this purchase therefore members are asked to note the additional funding of £0.685m from Capital Receipts. This is the first of a number of invest to save type capital projects, whereby we can generate income.

2.9.3. **HCL SCC SAP**

As we have come to the end of the contract with South West One, the solution that was being provided for our financial system SAP has come to an end. Therefore this asset has now been written out. In its place SCC has sought a solution from HCL who are now providing SCC with SAP following a migration of the current system.

The cost of this new system was £3.897m. As a result the current CIP was examined to identify where were able to reallocate the resources currently in the system and the following areas were identified:
ICT and Innovation - £0.702m;
Fleet - £0.500m;
Rights of Way - £0.199m.
In addition to this a further £2.496m will be required from Capital Receipts.

Members are requested to approve the above mentioned returns to the corporate pot to be reallocated to HCL SAP along with the additional supplement of £2.496m from Capital Receipts.

2.9.4. **ICT from SWO**

Following the completion of the contract with South West One, a number of items held by ICT have moved to SCC. These items include hardware that South West One has bought but was being utilised by SCC.

Therefore in order to purchase these essential items members are requested to approve the supplement of £0.320m to be funded from Capital Receipts.

2.9.5. **Replacement Wide Area Network**

The BT WAN project requires implementation of an improved bandwidth cloud based solution to that currently in place. This will be provided through an Internet Protocol (IP) Virtual Private Network (VPN) for all Corporate properties. As part of the SWO end of contract planning an in-depth commercial and dialogue phase was undertaken to assess the technical and commercial value of migrating the current Wide Area Network provision to a new solution which is more modern. Following identification of a technical solution that fully met SCC's future requirements a key decision was taken on the 30th August by the Commercial and Business Services Director to the direct award of a five-year contract with the proposed supplier. The service provides vital provision of internet capability for SCC, and the new, cloud based solution will provide a fully managed service which will improve service delivery, bandwidth, service levels and commercial terms, including a reduction in costs.

Members are requested to approve the additional supplement of £0.059m from Capital receipts.

2.9.6. **Whitstone Road**

Additional funds of £0.024m are required in order to meet the costs for completing the footway link unable to be completed by the developer. A contribution was taken from the developer at the time, but complexities associated with the project and market inflation left a shortfall in the budget.

Members are requested to approve the additional supplement of £0.024m from

Capital Receipts.

2.9.7. **Taunton Third Way**

A development site alongside Taunton Third Way was granted planning consent for development in 2010 / 11 subject to a Section 106 Agreement between Taunton Deane Borough Council, Somerset county Council, National Grid Property and the Developers Midas Homes. This Agreement included provision for a contribution towards any shortfall in funding associated with the construction of the Taunton Third Way. The payment of any shortfall to the County Council would be offset against the Affordable Housing Provision.

The development in question has to date not commenced and therefore the drawdown Section 106 Agreement has not been possible leaving a shortfall in the TTW funding.

Members are requested to approve the additional supplement of £0.320m from Capital Receipts to cover this.

3. Consultations undertaken

3.1. Information and explanations have been sought from services on individual aspects of this report and their comments are included as appropriate.

4. Financial, Legal, HR and Risk Implications

4.1. Financial Implications
Statement of Accounts and Balance Sheet 2016/17

4.1.1. The overall position in relation to external debt has continued to present the authority with some challenges. The current maturity profile of external debt meant that there was one repayment in 2016/17 of £0.243m resulting in external debt levels for capital purposes at the 31 March 2017 of £389.858m. This figure includes long term liabilities, loans and finance leases.

A review of the current Minimum Revenue Provision was carried out during 2016/17 to ensure a prudent amount was continued to be set aside for the repayment of loans when due.

4.2. Risk Implications

4.2.1. A number of risks have been identified during the financial year in relation to the Capital Investment Programme [CIP]

4.2.2. **Additional School Places.**
The requirement to build new schools in Somerset to meet the growing basic need for school places remains the key risk within the capital investment programme.
Potential funding for the building of New Schools has been identified through the Education Funding Agency. If a bid is successful then the EFA will fund the full cost of building the school. This potential funding could help relieve some pressure on the capital programme; however if bids are unsuccessful or the need can be met through expansions to existing schools; SCC resources will

still need to be identified.

4.2.3. **Capital Receipts.**
Increasingly limited capital resources continues to place further demands on the Council to rationalise its use of assets and develop shared facilities with other public and third sector organisations.

The objective is to maximise asset utilisation and release surplus assets to fund transformation initiatives. This will have the benefit of easing pressure within the revenue budgets.

In the local government settlement for 2016/17, the Government announced greater flexibility for Councils in the use of capital receipts from the sale of non-housing assets over a 3 year period. This new flexibility will allow Councils to use these receipts to fund the revenue costs of service reform and transformation. Somerset County Council will take advantage of this flexibility and as a result any new receipts within this period will be used for the transformation of the authority and not for the capital programme.

4.2.4. **Mid-Year Pressures.**
Capital investment and planning decisions are predominantly taken during the MTFP process in setting the annual budget. During this process a view is taken on the level of available resources which allows a minimal reserve to be held for unforeseen in year requirements

If significant in year requirements are identified and the funding cannot be met from existing resources it is possible that the Council would need to consider external borrowing to fund the requirements or revise and reduce the core investment plan. If external borrowing is to be used then it must be noted that there will be an additional charge to the revenue budget.

4.2.5. **Budgetary Control.** This report indicates that overall the budgetary control of the capital investment programme remains excellent. There remains a risk that this may be subject to some weakness as capacity is reduced and staff responsibilities change due to the rate of corporate change and switches between funding streams takes place frequently.

5. Other Implications

5.1. Issues such as access, equality and diversity, human rights, community safety, health & well-being, sustainability, freedom of information/data protection issues, organisational learning, partnership and procurement would normally be considered and managed at service, operational and project level.

6. Background papers

6.1. 2016/17 CIP Quarter 3 Monitoring Report to Cabinet 6 February 2017