Somerset County Council

Cabinet
– 11 June 2018

Capital Investment Programme 2017/18 – Outturn Report

Cabinet Member(s): Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member(s): All
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Report Sign off	**Seen by:**	**Name**	**Date**
	County Solicitor	Honor Clarke	23/05/2018
	Monitoring Officer	Scott Wooldridge	23/05/2018
	Corporate Finance	Lizzie Watkin	23/05/2018
	Human Resources	Chris Squire	23/05/2018
	Senior Manager	Kevin Nacey	23/05/2018
	Cabinet Member	Mandy Chilcott	23/05/2018
	Opposition Spokesperson	Liz Leyshon	25/05/2018
	Relevant Scrutiny Chairman	Tony Lock	25/05/2018
Forward Plan Reference:	FP/08/05/06		
Summary:	This report outlines the County Council Capital Investment Programme outturn position for 2017/18 and updates Members on changes since the Quarter 3 report presented in February 2018.		
Recommendations:	**Cabinet requested to:** • **Approve the supplements and virements as detailed in Section 2.2.2 and Section 2.2.3 and Appendix C** • **Approve the managed 2017/18 overspends in the 2018/19 Capital Investment Programme as detailed in Section 2.9** **The Cabinet is recommended to note the contents of this report.**		
Reasons for Recommendations:	To inform members of the financial position for the Capital Investment Programme relating to the financial year 2017/18.		
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.
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 2017/18 financial year. It highlights movements in the programme since the end of December contained in the third quarter report to Cabinet on 12 February 2018.

2. Options considered and reasons for rejecting them

2.1. This report summarises the outturn position for 2017/18 for the Capital Investment Programme. The following paragraphs cover the following elements of the CIP.

- Live Approvals under active management in the CIP
- 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 2017/18

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 2017 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 2017 stood at £600.195m. 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 £7.183m. 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. Two of these movements require Members approval, as follows:

- £2.300m for Lufton Kingfisher School funded by s106 developer contribution
- £0.636m for the demolition of former St Augustine’s School funded by s106 contribution

2.2.3 There have been a number of virements during the final quarter of 2017/18. The virements have been examined to identify their purpose and as a result of this it can be noted that the majority 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. The only virement which requires members approval relates to the movement of £0.741m of unspent loans funding from Highways Engineering Projects which is no longer required to Corporate ICT Investment to fund some of the accelerated spend in this area.

2.3. Forecast and Outturn Expenditure

2.3.1. The change between the previously reported forecast outturn of £117.189m and the actual outturn of £103.606m comprises two elements, an increase arising from the new approvals added to the programme since December of £7.183m and a decrease against all previous forecasts of £20.766m giving the net decrease of £13.583m. 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.

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 £607.377m. Of this £366.618m has already been incurred leaving £242.111m required to complete the programme as shown in Appendix B. The net approvals available is £240.759m giving the projected net overspend of £1.352m. It represents a projected net overspend over the whole CIP of 0.22% of active approvals. During 2017/18 a couple of significant overspends have contributed to the total but have been offset by a number of small underspends. The two main overspends are detailed in Section 2.9 of this report.

2.5. Capital Expenditure Financing

2.5.1. Actual expenditure at outturn was £103.606m. The actual financing for 2017/18 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 £77.126m or 74% 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 2018 were £332.101m. This includes Somerset Waste Partnership loans of £2.467m. 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 2017/18 after taking into account the costs of sale amounted to £7.632m. This included the following:

- County Farm sales £7.051m; and
- Other general sales £0.581m

2.6.2. As at 31 March 2018 the balance of available capital receipts was £1.328m. 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 £4.792m of sales will be required in 2018/19 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 updated guidance for the flexible use of Capital Receipts. This flexibility now allows for any Capital Receipts received within 2018/19 to 2021/22 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. £4.001m was utilised in 2017/18 with a further £5.468m forecast in the next two years.

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 2018 stood at £2.695m. The total of the Capital Fund reserve is included within the earmarked reserves in Table 4 of the Revenue Outturn report for 2017/18. At the present time there are no provisional commitments that are awaiting confirmation. This balance is planned to be used 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 2017/18 is £103.606m (2016/17 £144.271m).
- The percentage of Financing Costs to Net Revenue Stream in 2017/18 is 7.12% (2016/17 7.09%).
- Capital Financing Requirement as at 31 March 2018 is £366.114m (31 March 2017 £354.051m).
- External Debt as at 31 March 2018 is £383.444m (excluding accrued

interest of £3.959m) (2016/17 £385.899m).

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.

2.9. Other Matters

2.9.1. **ICT and Innovation Managed Overspend**

During the year it was identified that ICT and Innovation were facing a significant overspend due to the acceleration of spend to drive through technology changes required to support service delivery innovation.

Having reviewed other schemes within the programme we were able to identify £0.741m of unspent Loan funding no longer required for other schemes. Members are requested to approve this virement.

This leaves an overspend reported to be £1.958m at 31st March 2018. It is requested for members to approve this to be managed by additional approval of £1.021m from existing Capital Receipts and £0.937m to be managed from approvals included within the 2018/19 CIP.

2.9.2. **SIS Managed Overspend**

A number of Small Improvement Schemes have contributed to an overspend of £0.325m. Further investigation after year end found this to include a scheme outside of SIS. This scheme has its own funding which will be applied in the new year. As a result, the actual overspend for SIS is £0.184m. Members are asked to approve the request to manage this from approvals included within the 2018/19 CIP.

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 2017/18

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 for capital purposes at the 31 March 2018 was £387.403m. This figure includes long term liabilities, loans and finance leases.

A review of the current Minimum Revenue Provision was carried out during

2017/18 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 is the key driver of the capital investment programme. We are bidding for funding to the DfE and through the Housing Infrastructure Fund to provide resource for the capital programme. If we are unsuccessful, we will have to find a source of funding to meet this need.

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 2018/19, the Government announced an extension to the greater flexibility for Councils in the use of capital receipts from the sale of non-housing assets over a 3 year period. This flexibility will allow Councils to continue 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 within 2018/19 receipts 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 good. 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, information request/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. 2017/18 CIP Quarterly Monitoring Report to Cabinet

Note: For sight of individual background papers please contact the report author.