Somerset County Council

Cabinet
– 10 June 2019

Capital Programme 2018/19 – Outturn Report

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	Seen by:	Name	Date
Report Sign off	County Solicitor	Honor Clarke	29/05/2019
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	Cabinet Member	Mandy Chilcott	29/05/2019
	Opposition Spokesperson	Liz Leyshon	29/05/2019
	Relevant Scrutiny Chairman	Anna Groskop	29/05/2019
Forward Plan Reference:	FP19/04/06		
Summary:	This report outlines the County Council Capital Programme outturn position for 2018/19 and updates Members on changes since the Quarter 3 report presented to Cabinet in February 2019. The report shows that £114.412m was spent against the Capital Programme in 2018/19 compared to forecasts of £133.393m provided by services at Quarter 3. Whilst most of this movement reflects timing and the spend remains necessary, overall the Capital Programme is forecasting a favourable variance of £1.274m compared with total approvals available, which equates to 0.17% of the programme.		
Recommendations:	**Cabinet are requested to approve:** • **A virement of £1.224m from the underspend to fund additional Highways Small Improvement and Integrated Transport Schemes;** • **The below supplemental approvals as detailed in Section 2.9:**		

	£1.463m Devolved Formula Capital Grant for Schools; **£0.312m Healthy Pupil Capital grant applied to Taunton Nerrols Primary School build.** **The Cabinet is recommended to note the contents of this report, including the managed overspends detailed in Section 2.10.**
Reasons for Recommendations:	To inform members of the financial position for the Capital Programme relating to the financial year 2018/19 and any consequential impacts for 2019/20.
Links to Priorities and Impact on Service Plans:	The Capital 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 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 (EIA) for projects in the existing programmes were undertaken during the budget setting process and are updated as projects are implemented as necessary. Any slippage or major change in a particular project will trigger the service to conduct a review of the original EIA and amend 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 Programme for the 2018/19 financial year. It highlights movements in the programme since the end of December 2018 contained in the third quarter report to Cabinet on 11 February 2019.

Appendix A provides members with examples of projects completed during the 2018/19 financial year.

2. Options considered and reasons for rejecting them

2.1. This report summarises the outturn position for 2018/19 for the Capital Programme. The paragraphs below cover the following elements of the Capital Programme.

- Live Approvals under active management in the Capital 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 2018/19

2.2.1 Approvals are the amounts available to services to deliver the Capital Programme. They include the planned programme of works and known sources of finance agreed at County Council in February 2018 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 delegated responsibility to the Section 151 Officer in anticipation of such eventualities to avoid the necessity for additional formal approval to be given for each additional resource.

2.2.2 Capital Programme active approvals at the end of December 2018 stood at £720.413m. There have been several movements between the end of December 2018 and the end of March 2019 amounting to a net increase in approvals of £10.020m. This figure comprises of 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 B. Some of these movements are over the scheme of delegation threshold and require Members approval. More information about these schemes can be found in section 2.9. of this report.

2.2.3 There have been a few virements during the final quarter of 2018/19. The virements have been examined to identify their purpose and shown that none of them 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 Capital Programme.

Examples of this within Schools Basic Need has seen £41.380m of approval allocated against specific school projects (£13.373m to Bridgwater New Special School, £5.831m to Keyford New Primary School in Yeovil, £5.279m to Brue Farm, Highbridge, £4.766m to Castle Cary Primary, £3.953m to Wells New Primary School, £1.963m to Somerton King Ina School). Within Property, £1.350m of approval has been reallocated to the Taunton One Public Estate project from other projects (Shepton Mallet and Yeovil).

2.2.4 There is a reported underspend (section 2.4) across the Capital Programme and a request is made to vire £1.224m of the underspend to fund the request for additional Highways Small Improvement and Integrated Transport Schemes. This approval is no longer required as an alternative option of delivery is being implemented at a greatly reduced cost. The balance of the underspend (£0.050m) has restrictions on the funding and is therefore not available to utilise.

2.3. Forecast and Outturn Expenditure

2.3.1. The change between the previously reported forecast outturn of £133.933m and the actual outturn of £114.412m comprises two elements:

- an increase arising from the new approvals added to the programme since December 2018 of £10.020m, and;
- a decrease against all previous forecasts of £29.543m.

This gives a net decrease of £19.523m. It should be noted that the movements in predicted expenditure do not mean that the resources are no longer required to complete projects rather that the timing of the expenditure has changed. This position will continue to be monitored and challenged to assess the impact on any funding that is no longer required.

2.3.2. Some movement in spend predictions is to be expected in the Capital Programme; due to uncertainties including planning, procurement delays, ground conditions, contractor issues and the difficulty for services to anticipate the outturn position some months in advance of the year end. Much of the slippage relates to Local Enterprise Partnership schemes (£16.558m), something that has been highlighted to the LEP Project Board and discussions have begun to help the LEP Board improve future forecasting of schemes. 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 Adverse or Favourable Variances

2.4.1. The net adverse or favourable variance 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, to give the overall position of the Capital Programme.

2.4.2. Current forecasts are that the total approval required for the programme is £730.433m. Of this £398.464m has already been incurred leaving approval for the remaining programme at £331.969m. Forecasts indicate £330.695m is required to complete the programme as shown in Appendix C, therefore giving the projected net favourable variance of £1.274m, as shown in Appendix D. This represents a projected net favourable variance over the whole Capital Programme of 0.17% of active approvals.

2.5. Capital Expenditure Financing

2.5.1. Actual expenditure at outturn was £114.412m. The actual financing for 2018/19 is shown at the base of the Table in Appendix C. The most significant source of finance in the Capital Programme is capital grants which are being used to finance £80.473m or 70% of the total. The remaining funding comes from a range of sources including revenue, third party contributions, loans pool funding, and capital receipts. Capital grants are provided by Central Government for some of the key investment programmes in education and transport, although it must be noted that the full projected cost of these programmes is not met by grants alone. Funding for the Capital Programme is set out in Appendix C.

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 2018/19 after taking into account the costs of sale amounted to £11.344m. This included the following:

- County Farm sales £8.075m; and
- Other general sales £3.269m.

2.6.2. As at 31 March 2019 the balance of available capital receipts was £6.066m, this is split between earmarked receipts for Economic Development of £2.203m and general receipts of £3.863m. Of these sums, the Economic Development receipts are fully committed against future planned expenditure. There is also £1.768m forecast against general receipts for the remaining Capital Programme.

2.6.3. The Secretary of State 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. In 2018/19 £8.600m of capital receipts funded the council's revenue budget and details are included in the revenue budget outturn report elsewhere on this agenda.

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 such as the feasibility costs of abandoned schemes or the original design costs of schemes which are subsequently amended substantially redesigned; and
- Support capital receipt financing in the event asset sales are not realised as estimated either due to timing or reduced sale values.

2.7.2. The Capital Fund balance at 31 March 2019 stood at £2.548m. The total of the Capital Fund reserve is included within the earmarked reserves in the Table at 5.13. of the Revenue Outturn report for 2018/19. As at 31 March 2019 this balance is planned to be used to cover potential cash flow implications around the J25 M5 project and the school's feasibility fund (for abortive feasibility and design works). Any other commitments will be considered at the appropriate time.

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 2018/19 is £114.412m (2017/18 £103.606m).
- The percentage of Financing Costs to Net Revenue Stream in 2018/19 is 7.64% (2017/18 7.12%).
- Capital Financing Requirement as at 31 March 2019 is £378.304m (31 March 2018 £366.114m).
- External Debt as at 31 March 2019 is £378.984m (excluding accrued interest of £3.920m) (2017/18 £383.444m).

The above external debt figures are defined in such a way as to include only the debt raised for capital purposes and other forms of debt including money managed on behalf of other authorities, short term debt and Other Long-Term Liabilities such as finance leases, including the Bridgwater Private Finance Initiative school.

2.9. Other Matters – Supplement and Virement Approvals

Within the Schools – Primary and Secondary Sectors heading, there are two supplementary approvals which require sign off by members.

2.9.1. Devolved Formula Capital Grant for Schools (DFCG) - £1.463m

As part of the Autumn budget, Central Government announced an extra £400m capital funding for schools. This funding can be used towards improvement to buildings, equipment and other facilities, such as ICT.

Members are requested to approve the supplementary approval of £1.463m to SCC from the DfE Devolved Formula Capital grant for Schools.

2.9.2. Healthy Pupil Capital Fund – £0.312m

Earlier in the year, the government announced additional schools funding as part of the Sugar Tax Levy introduced. Somerset County Council was awarded the sum of £0.312m for 2018-19. The funding could be spent on school project(s) which met the criteria set out within the grant determination. The Learning Infrastructure Board decided the grant was best used as part of the Taunton Nerrols Primary School build.

Members are requested to approve the supplementary approval of £0.312m to be allocated as part of the Taunton Nerrols Primary School build.

2.10. Other Matters – Managed Overspends

2.10.1. Highways Engineering Projects – Projected Overspend (£0.656m)

During the year it was identified that some costs were still outstanding against the Taunton Northern Inner Distribution Road. Unspent approval in relation to this scheme was vired to other areas within the capital programme at the end of 2017/18 believing it to be complete which has led to the projected overspend. Detailed work is to be undertaken prior to the quarter one 2019/20 capital report to fully understand the estimated remaining costs and to scope out any current approvals which could be used to complete the scheme.

2.10.2. **Highways and Traffic Management – Minor Traffic Management**

Towards the end of the financial year it became apparent that Minor Traffic Management was forecasting an overspend. At the end of the financial year the figure was £0.075m. Various options were discussed with the service which led to the decision by the Strategic Manager to fund the overspend from their revenue budget, which was underspent. This has been reflected in the revenue outturn position.

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 2018/19

4.1.1. The current maturity profile of external debt for capital purposes at the 31 March 2019 was £372.515m. This figure includes long term liabilities, loans and finance leases. The council is scheduled to repay £75.000m between 2024/25 to 2034/35 and large repayments of £144.500m between 2053/54 and 2055/56.

A review of the current Minimum Revenue Provision was carried out during 2018/19 to ensure a prudent amount was continued to be set aside for the repayment of loans when due. Details of this can be found within the Medium Term Financial Plan 2019-22 and Annual Budget 2019/20 papers recommended by Cabinet and approved at Full Council in February 2019 (Item 9, Appendix B).

4.2. Risk Implications

4.2.1. A number of risks to the remaining Capital Programme have been identified as detailed below.

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.

The Wessex Learning Trust were unsuccessful in their Free School bid to the Department for Education’s Free Schools Wave 13. The wave was heavily oversubscribed (124 bids for approximately 35 projects). Whilst the bid clearly showed the need for extra capacity in the Burnham on Sea area, it wasn’t as critical as others. The Council will continue to explore the possibilities of submitting bids under Wave 14, subject to the bid criteria being met.

4.2.3. **Early Years Sufficiency**

There is still a shortage of places in some areas of Somerset according to data from the Childcare Sufficiency Assessment in 2017 and 2018. There remains a risk, albeit a low risk, that the Council may not be able to ensure sufficiency of places in those areas.

4.2.4. **Capital Receipts.**

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

During 2019/20, the Council plans to continue to use the flexibility permissible by the Government to fund qualifying revenue costs of service reform and transformation from capital receipts to the value of £2.796m.

4.2.5. **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.

4.2.6. **Budgetary Control**

This report indicates that overall the budgetary control of the capital 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. As per the authority’s financial regulations, any addition to the capital programme which impacts on revenue (i.e. additional borrowing costs or use of capital receipts) would need the approval of council before it is implemented.

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. 2018/19 CIP Quarterly Monitoring Report to Cabinet
2018/19 Revenue Outturn Report
Medium Term Financial Plan and Annual Budget Report 2019/20

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