

Decision Report – Cabinet

Decision Date – 13th November 2019**2019/20 Capital Budget Monitoring – Quarter 2 (Month 6) Report**

Cabinet Member(s): Cllr Mandy Chilcott – Cabinet Member for Resources

Division and Local Member(s): All

Lead Officer: Sheila Collins, Interim Director of Finance

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	Seen by:	Name	Date
	County Solicitor	Honor Clarke	04/11/2019
	Monitoring Officer	Scott Wooldridge	04/11/2019
	Corporate Finance	Sheila Collins	25/10/2019
	Human Resources	Chris Squire	04/11/2019
	Property	Paula Hewitt / John Cooper	04/11/2019
	Procurement / ICT	Simon Clifford	04/11/2019
	Senior Manager	Sheila Collins	25/10/2019
	Commissioning Development Team	commissioningdevelopments@somerset.gov.uk	04/11/2019
	Local Member(s)	All	04/11/2019
	Cabinet Member	Cllr Mandy Chilcott	25/10/2019
	Opposition Spokesperson	Cllr Liz Leyshon	04/11/2019
	Relevant Scrutiny Chairman	Cllr Anna Groskop for Scrutiny Place	04/11/2019
Forward Plan Reference:	FP/19/16/09		
Summary:	This report sets out the Quarter 2 (Month 6) forecast outturn position for 2019/20 for the Capital Budget of £788.425m. It highlights variances to service budgets, as well as emerging issues, risks, areas of concern and proposed actions to resolve them.		

	At the half way point in the year, the report is currently forecasting an overall favourable variance of £1.735m.
Recommendations:	<p>It is recommended that the Cabinet:</p> <ol style="list-style-type: none"> 1. Note the forecasted budget position for the currently approved 5-year programme with a forecast favourable variance of £1.735m; 2. Approve the request to vire £0.040m of grant funding from the Smart Ticketing project to the New Fleet Management System project, as detailed in Section 5 of this report.
Reasons for Recommendations:	Closely monitoring spend against the agreed budget is necessary to ensure that the Council delivers its priorities within its means. This report requires action to be taken so that this objective can be met.
Links to County Vision, Business Plan and Medium-Term Financial Strategy:	The Medium-Term Financial Plan (MTFP 2019-22) sets the funding for the County Vision and the use of those funds is then monitored, via this report and others throughout the year to ensure delivery of Council objectives and actions within the resources available.
Consultations and co-production undertaken:	Information and explanations have been sought from directors on individual aspects of this report and their comments are contained in the report. Due process and consultations will be carried out where required for any further specific proposals for change.
Financial Implications:	The financial implications are identified throughout the report.
Legal Implications:	There are no specific legal implications arising from this report.
HR Implications:	There are no HR implications arising directly from this report, but remedial actions may have such implications. These will be dealt with in any subsequent reports.
Risk Implications:	The Council's corporate risk register recognises the difficulties to containing spend within budget in the face of service

	<p>pressures, reducing funding and the challenges of delivering ever more savings and efficiencies.</p> <p>The Organisational Risk (00043) has a broad perspective, encompassing both current year spending and future years' budgets. At the beginning of each year this corporate risk is reviewed.</p> <p>Following the Spending Round (SR19) additional funding for Local Authorities has been indicated, mainly for social care and high needs education. However, this is not certain until the Local Government Financial Settlement is announced later in the year. Also any assurances on longer term capital funding from government departments (i.e. department for education) were postponed, with government to publish its plans for capital spending later in Autumn. This leaves uncertainty for funding future projects.</p> <p>Although broader market uncertainty exists in view of the current Brexit negotiations, at this stage any precise implications are not known. The Council needs to be alert to potential implications as negotiations develop and respond accordingly at the time.</p> <p>Specific risks related to individual funding sources are outlined in section 4 of the report.</p>				
	Likelihood	4	Impact	4	Risk Score

Other Implications (including due regard implications):	<u>Equalities Implications</u>				
	There are no specific equalities implications arising from the contents of this report.				
	<u>Community Safety Implications</u>				
	There are no community safety implications arising from the contents of this report.				
	<u>Sustainability Implications</u>				
	There are no sustainability implications arising from this				

	<p>report.</p> <p><u>Health and Safety Implications</u></p> <p>There are no health and safety implications arising from this report.</p> <p><u>Privacy Implications</u></p> <p>There are no privacy implications arising from this report.</p> <p><u>Health and Wellbeing Implications</u></p> <p>There are no health and wellbeing implications arising from this report.</p>
Scrutiny comments / recommendation (if any):	This report will be presented to Scrutiny for Policies and Place Committee, on 11 th December 2019 and comments arising will be made available to the Cabinet at a subsequent meeting.

1. Background

- 1.1. This report is the second quarterly capital budget monitoring for 2019/20 and provides a mid-year forecast of the potential end of year position.
- 1.2. It is encouraging that the forecast continues to show confidence that the programme management ensures that the budget assumptions are realistic and achievable. Of the £788.425m active approval; £406.853m has been spent in previous years, leaving approval of £381.572m against which forecasts have been made. The month 6 position gives a forecast spend over the coming 5 years of £379.837m presenting an overall favourable variance of £1.735m (0.45%).
- 1.3. The following table summarises the budget by service area:

Table 1. Budget Summary by Service Area

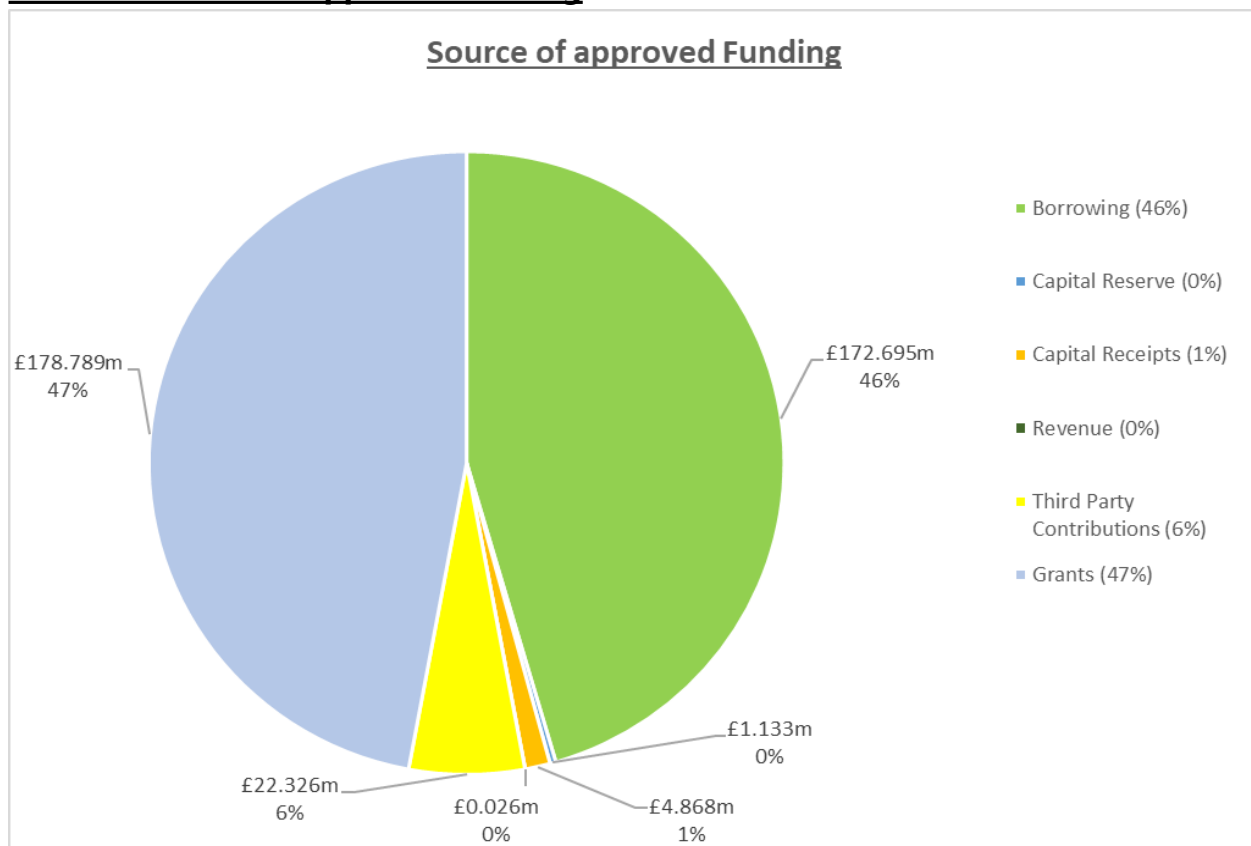
Service Area	A	B	(A - B) = C	D	(D-C) = E
	Approvals as at end Sept 2019	Expenditure incurred to 31/03/19	Remaining approval from 01/04/2019	Forecast Expenditure	Net (favourable) / adverse
	£m	£m	£m	£m	£m
Schools - Primary and Secondary Sector	213.434	76.375	137.059	137.088	0.029

Annex A

Local Enterprise Partnership	147.077	87.914	59.163	59.163	0.000
Economic Development	126.189	79.461	46.728	46.727	(0.001)
Highways Engineering Projects	97.236	59.518	37.718	37.938	0.220
Highways and Traffic Management	96.957	55.306	41.651	40.984	(0.667)
Support Services	36.914	21.244	15.670	14.725	(0.945)
Somerset Waste Partnership	24.510	0.000	24.510	24.554	0.044
Early Years and Community Services	14.793	3.252	11.541	11.415	(0.126)
Flood and Water	10.310	10.287	0.023	0.023	0.000
Schools - SEN and Access	6.807	3.888	2.919	2.920	0.001
Other Services	14.198	9.608	4.590	4.300	(0.290)
	788.425	406.853	381.572	379.837	(1.735)

1.4 The capital programme is funded by various sources, summarised as follows:

Table 2. Sources of Approved Funding



There have been some movement in funding sources since quarter 1 and these are reported in **section 4**.

2. Active approvals

- 2.1** The Council monitors the total capital schemes that have been approved in past years: known as active approvals. As at 31st July 2019 these stood at £788.885m. In this quarter the total approval has reduced to £788.425m due to the various movements detailed in **Appendix A** of this report.
- 2.2** The Director of finance (known as the S151 Officer) has delegated authority to accept any additional grants or funding that is made available to the County Council together with authority to consequently expand the approved capital programme, providing there are no negative revenue budget implications as a result of that action.
- 2.3** There has been one virement undertaken during the second quarter. Virements are the movement of approvals between budget lines. Virements are examined to identify their purpose; they do not require formal ratification by members as they are classed as technical changes. The virements 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. These do not change the overall funding budget of the programme. Details of the virement can be found within **Appendix A**.
- 2.4** Also reported within the Technical Changes for this quarter is movement of £1.814m of approvals from Schools Primary and Secondary to Early Years and Community Services. This is to correct an issue within our reporting structure identified earlier in the year.

3. Forecast against budget and expenditure profile

- 3.1** At the end of September 2019 services were forecasting future expenditure of £379.837m, as detailed in **Appendix B**, against the remaining approval of £381.572, over the current and subsequent four financial years. This forecast gives an expected favourable variance of £1.735m.
- 3.2** The following table shows the movement of the overall favourable variance from what was forecast last quarter, after allowing for any movement in approvals during this quarter. A positive value indicates an adverse movement and a negative value indicates a favourable movement.

Table 3. Movement in Forecasts from Qtr. 1

	Remaining programme approval	2019/20 Qtr. 1+1		2019/20 Qtr. 2		Movement from the last quarter
		Total forecast spend @ 31/07/2019	Net (favourable) / adverse	Total forecast spend @ 30/09/2019	Net (favourable) / adverse	
Service Area	£m	£m	£m	£m	£m	£m

Annex A

Schools - Primary and Secondary Sector	137.097	137.085	(0.012)	137.088	(0.009)	0.003
Local Enterprise Partnership	59.163	59.163	0.000	59.163	0.000	0.000
Economic Development	46.728	46.728	0.000	46.727	(0.001)	(0.001)
Highways Engineering Projects	37.718	37.937	0.219	37.938	0.220	0.001
Highways and Traffic Management	41.651	41.032	(0.619)	40.984	(0.667)	(0.048)
Support Services	15.670	15.011	(0.659)	14.725	(0.945)	(0.286)
Somerset Waste Partnership	24.510	24.510	0.000	24.554	0.044	0.044
Early Years and Community Services	11.503	11.415	(0.088)	11.415	(0.088)	0.000
Flood and Water	0.023	0.023	0.000	0.023	0.000	0.000
Schools - SEN and Access	2.919	2.919	0.000	2.920	0.001	0.001
Other Services	4.590	4.395	(0.195)	4.300	(0.290)	(0.095)
	381.572	380.218	(1.354)	379.837	(1.735)	(0.381)

3.3 The main movements in the adverse or favourable variances are commented as follows:

- Highways and Traffic Management – an increase in the anticipated favourable variance of £0.048m. This is due to a scheme at South Petherton Hospital being no longer achievable. Alternative uses for the funding are being investigated by the service.
- Support Services– an increase in the anticipated favourable variance of £0.286m. This is due to a revised forecast from ICT indicating less resource is being used on capital projects than originally anticipated.
- Somerset Waste Partnership – a change in forecast from a balanced position to an adverse variance of £0.044m. This is due to improved environmental options becoming available, increasing the cost of some vehicles (Electric Bin Lifts).
- Other Services– an increase of the anticipated favourable variance of £0.095m. This is due to reporting a favourable variance within Adult Social Care against old approvals for the Adults ICT Transformation. The service has not provided any forecast for this approval therefore it has been assumed it is no longer required.

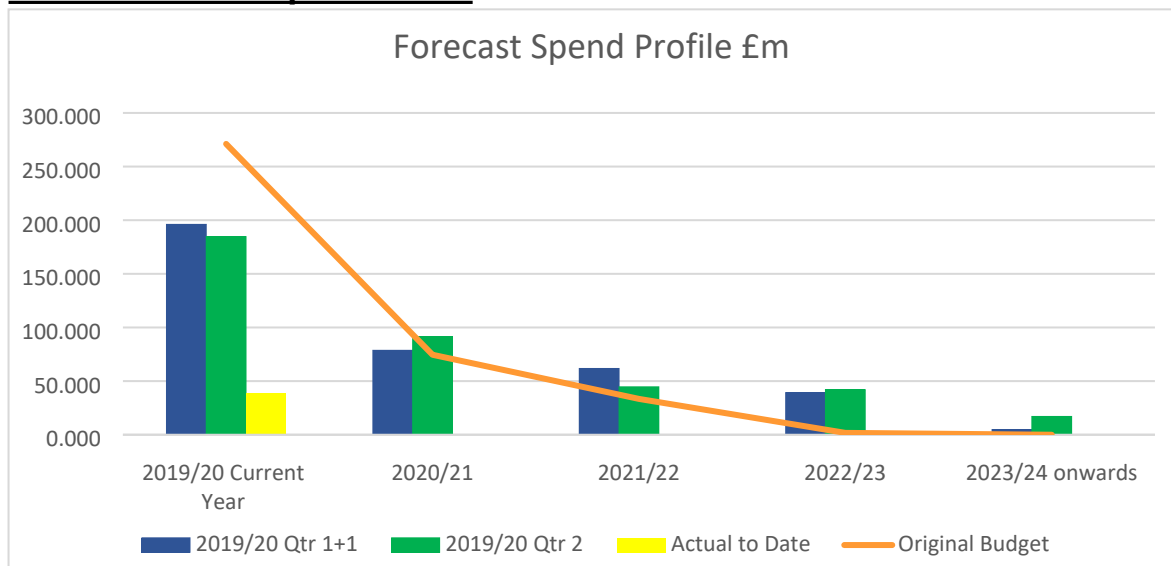
3.4 A more detailed look at the overall adverse and favourable variances within the capital programme can be found in **Appendix C**.

3.6 As the capital programme spans multiple years, services are required to provide a forecasted

spend profile for the current plus 4 years. This allows us to undertake budget monitoring and programme management which in turn allows us to adequately plan the availability of funding resources.

3.7 The latest spend profile compared to the previous quarter is set out below follows:

Table 4. Forecast Spend Profile



Appendix D shows the forecasted spend and reasons for movements.

3.8 Forecasting capital expenditure levels is particularly difficult due to the reliance on contractor activity, the weather and capacity within the Council’s providers to design and support the programme. The actual programme is also only fully developed later in the financial year as individual projects are finalised and specifically programmed from the generic programmes. Clearly it is only at this stage that a realistic estimate of the timing of expenditure can be made.

3.9 This overview of the Capital Programme indicates that the programme is being managed proactively by services within the resources that they have available. Commitments are not being entered into without an available budget and generic approvals are being managed as costs become more certain and the programme of work adjusted accordingly. However, there remains a need to fully scrutinise the forecasts received in order to be certain of their accuracy as we head further into the financial year. Finance will also be undertaking further work with Services to challenge forecasts in order to provide senior managers and members with reassurance on the accuracy of forecasts.

4 Funding

This section provides an update on the funding of the capital programme over the coming five years. **Appendix A** provides reference to the movements in the funding detailed below.

4.1 Capital Receipts

- 4.1.1** The capital programme has planned expenditure of £4.868m (no change from the last quarter) to be funded by capital receipts.
- 4.1.2** Capital Receipts are the sums received from the sale of assets where the proceeds exceed £0.010m. Net useable receipts received up to September 2019, after taking into account the costs of sale, amounted to £1.629m. Current estimates based on progressing sales indicate £7.677m might be realised from sales by the end of the financial year. Realising this sum will however depend on circumstances outside the direct control of the County Council including the wider economic outlook and third parties. It could also be compromised if any of the properties are the subject of a Community Asset Transfer application.
- 4.1.3** 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 £2.346m.

4.2 Grants

- 4.2.1** The capital programme has planned expenditure of £178.789m (£175.693m reported in the last quarter) to be funded by capital grants.
- 4.2.2** The Council submitted a Housing Infrastructure bid for £93m to Homes England in March 2019. Homes England are currently in the process of reviewing bids, seeking further information where needed, and arranging some site visits. It is anticipated that any announcement on successful bids will be made towards the end of 2019.

4.3 Contributions (S106 / CIL / Other)

- 4.3.1** The capital programme has planned expenditure of £22.326m (£25.839m reported in the last quarter) to be funded by capital contributions from third parties e.g. property developers.
- 4.3.2** As part of the move towards reporting a full capital programme, we are in the process of adding the known approvals for all contribution funded schemes. In previous years, contribution approval was only added when the income had been received. As more contributions are received, this reduces the need for SCC resourced funding.
- 4.3.3** Future quarterly reports to update members on the position of contributions, to highlight where funding is not secured and therefore the council is potentially cash flowing/ underwriting until the funding is in place. This will include a new appendix to RAG status contributions, as below:

- Red – Unsecured/ unsigned agreements;
- Amber – Secured/ signed agreements but funding yet to be received;

- Green – Agreement in place and funding received.

Work is continuing to collate this information in the right format to enable consistent reporting across the council.

4.4 Borrowing

4.4.1 The capital programme is approved fully funded. This means that the Council have approved the use of borrowing to ensure that resources are available to enable delivery of the capital programme. However, it is not anticipated all the borrowing approved is expected to be taken and where possible other external sources of funding are being sought. For example, the Housing Infrastructure bid to Homes England.

4.4.2 The capital programme has planned expenditure of £172.695m (£173.124m reported in the last quarter) to be funded by borrowing.

4.4.3 External borrowing stands at £324.5m. The cost implications of this borrowing are factored into the revenue MTFP. The current annual cost of borrowing is budgeted to be £19.187m.

4.5 Capital Fund

4.5.1 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. This reserve is a revenue reserve held for specific capital contingency. The current balance held is £2.548m.

4.5.2 The current commitments to this reserve total £1m. This is cashflow for the M5 J25 Scheme.

4.5.3 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. The Capital Fund is held to mitigate the likelihood or impact of this possibility.

5. Request for transfer of funding

5.1 In March 2017, a Member Key decision was taken to “agree that the £3.859m productivity investment fund grant (DfT) for 17/18 financial year is allocated towards providing additional spend on highway structural maintenance, additional spend on the major transport schemes programme, and spend on a public transport smart ticketing project, with the precise value of the allocation to each programme or project determined by the Director and Lead Commissioner for Economic and Community Infrastructure.”

As part of the grant terms and conditions, SCC had to publish the allocations on their website. The allocations were as follows:

Project/ Programme	Indicative allocation from the productivity investment fund 17/18
Highway resurfacing programme	£0.5m
Major schemes programme	£3m
Public transport smart ticketing project	£0.359m
Reserve Programme	
Traffic signals replacement programme	£0m
TOTAL	£3.859m

The majority of this funding has been utilised but there is £0.057m left within the Public Smart Ticketing project. The service would like to use £0.040m to fund a new Fleet Management System. The grant can be used for this project as it still allows for improvements to public transport networks. The remaining £0.017m will be used to complete the Smart Ticketing project.

Members are requested to approve the virement of £0.040m of grant funding from Public Transport Smart Ticketing project to the New Fleet Management System project.

Following approval from members, the SCC website will be updated to reflect the change in use for this funding.

6. Options considered and reasons for rejecting them

6.1 There are no alternative options presented within this paper.

7. Background papers

- 7.1**
- 2019-20 Quarter 1 Capital Budget Monitoring Report to Cabinet – September 2019
 - 2019/20 Capital MTFP Report to Full Council – February 2019