

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	20 June 2016
Title:	2015/16 – End of Year Financial Report
Reference:	7478
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr, Head of Finance

Tel: 01962 847508 **Email:** Rob.Carr@hants.gov.uk

1. Executive Summary

- 1.1. This report provides a summary of the 2015/16 final accounts. The draft statement of accounts will be submitted for audit on the 30 June 2016 and reported to the Audit Committee in September, in conjunction with the External Audit report on the accounts.
- 1.2. Net service cash-limited expenditure was £21.6m lower than budgeted against an overall gross budget of approaching £1.9bn, a variance of 1.1%. This position reflects the continuing financial strategy of achieving savings early, which can then be used to meet the cost of change and provide for invest to save or transformational projects in future years.
- 1.3. The position for each of the services is summarised in the table below:

	(Under) / Over Spend £'000
<u>Departmental Expenditure</u>	
Adults' Services	0
Children's Services - Non Schools	0
Economy, Transport and Environment	(9,500)
Policy and Resources	(12,096)
TOTAL	<u>(21,596)</u>

- 1.4. The balanced position for Adults' Services reflects significant management activity during the year to bring actual spend in line with the budget.

Item 9 ANNEX 1 (Cabinet Report)

Departmental contingencies were used to offset pressures due to increasing complexity and demography and this along with early delivery of savings have contributed to the final break even position at the end of the year.

- 1.5. The balanced position in Children's Services equally reflects effective management which has seen containment of pressures in the Children Looked After Budget, that occurred due to increasing activity levels and higher average costs due to the type of care being provided with other emerging pressures met through the use of cost of change reserves to deliver a break even position.
- 1.6. The final outturn position for Economy, Transport and Environment (ETE) shows an under spend of £9.5m due to early delivery of savings and savings primarily in Highways Traffic and Transport an element of which is due to the mild and dry winter which has resulted in savings against the winter maintenance budget of approaching £1.8m.
- 1.7. Policy and Resources achieved an under spend of £12.1m mainly due to ongoing efficiency savings and the early achievement of 2017/18 savings.
- 1.8. Service under spends within ETE and Policy & Resources have been set aside for use by the respective services to meet restructuring and investment costs associated with the Transformation to 2017 (Tt2017) Programme and beyond, in accordance with the current financial management policy and the Medium Term Financial Strategy (MTFS).
- 1.9. In addition within ETE it is specifically proposed to reinvest the savings associated with the winter maintenance budget in highways maintenance to provide additional one-off resources in 2016/17 to extend existing planned maintenance programmes (e.g. footway repairs), undertake additional drainage works and carry out targeted road marking, sign cleaning and vegetation clearance works. This additional investment will complement the Government's one-off pothole grant funding of approaching £1.5m in 2016/17.
- 1.10. Savings on non-cash limited budgets total £21.1m. This is mainly as a result of treasury management activity and unused contingencies. Contingencies were set aside in recognition of the increased risk in the budget due to the significant levels of savings that were removed in 2015/16 and ongoing pressures within social care, although this has been partially offset by the need to provide for an additional doubtful debt provision in 2015/16.
- 1.11. This report recommends that £1m of this under spend is set aside to fund the next phase of management development costs under the Workforce Development Strategy. It is proposed to transfer the balance of £20.1m to the Grant Equalisation Reserve (GER) bringing the level in the reserve up to £75.2m, of which £44m will be utilised in 2016/17 as agreed by the County as part of budget setting in February.
- 1.12. The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes very two years with deficits in the intervening years

Item 9 ANNEX 1 (Cabinet Report)

being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the Medium Term Financial Strategy to 2020 report to Cabinet elsewhere on the agenda, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2020.

1.13. The report contains a small section on reserves and balances highlighting that in line with the MTFs, the level of reserves has increased to provide for future draws, notably in 2016/17 and 2018/19 at which point they will decline as our financial plans are delivered over the medium term.

1.14. The report also recommends approval of:

- The annual report on the operation of the treasury management strategy, for subsequent approval by the County Council.
- The council's end of year prudential indicators.
- A revised capital financing plan for 2016/17.

2. 2015/16 Final Accounts

Service cash Limits

2.1. The table below summarises the net outturn position for each Department compared to the final cash limit for the year. The figures exclude schools spending but include cost of change paid for during 2015/16:

	(Under) / Over Spend £'000
<u>Departmental Expenditure</u>	
Adults' Services	0
Children's Services - Non schools	0
Economy, Transport and Environment	(9,500)
Policy and Resources	(12,096)
TOTAL	<u>(21,596)</u>

2.2. Pressures within social care services remain the highest risk and most volatile area of the County Council's budget and by far the most volatile area continues to be adults' social care. In 2015/16 Adults' Services have contained these pressures within the bottom line through the application of concerted management effort combined with the utilisation of available one-off resources and the early delivery of savings.

2.3. Children's Services have seen the number of Children Looked After (CLA) fall slightly during 2015/16 and it is anticipated that the additional £12.5m provided to Children's Services as a base budget adjustment should be enough to meet the ongoing costs in 2016/17, assuming numbers do not start to increase again. However, there are other increasing pressures,

Item 9 ANNEX 1 (Cabinet Report)

particularly in relation to Leaving Care services and the use of agency staff that are being addressed as part of the Tt2017 programme.

- 2.4. There are pressures on the schools budget related to higher demand on High Needs, in particular Special Educational Needs (SEN) where there are increasing numbers of pupils with Education, Health and Care (EHC) plans or Statements of SEN and other top-up funding arrangements. In addition, the increasing number of primary age pupils has led to higher than anticipated demand for growing schools funding. In 2015/16 these pressures have been funded through the use of one-off reserves. However, Schools Forum has considered ways of mitigating these pressures, which have been incorporated into the 2016/17 budget strategy.
- 2.5. The final outturn position for Economy, Transport and Environment (ETE) shows an under spend of £9.5m due to early delivery of 2017/18 savings and savings primarily in Highways Traffic and Transport, an element of which is due to the mild and dry winter which has resulted in savings against the winter maintenance budget of approaching £1.8m.
- 2.6. Policy and Resources achieved an under spend of £12.1m mainly due to ongoing efficiency savings and the early achievement of 2017/18 savings.
- 2.7. Detailed explanations for the outturn position for Departmental budgets are provided in Appendix 1.
- 2.8. The ETE and Policy and Resources under spends will be set aside to meet the future cost of change in line with the current policy.
- 2.9. In addition within ETE it is specifically proposed to reinvest the savings associated with the winter maintenance budget in highways maintenance to provide additional one-off resources in 2016/17 to extend existing planned maintenance programmes (e.g. footway repairs), undertake additional drainage works and carry out targeted road marking, sign cleaning and vegetation clearance works. This additional investment will complement the Government's one-off pothole grant funding of approaching £1.5m in 2016/17.

Schools Budget

- 2.10. The Schools Budget is fully funded by Dedicated Schools Grant (DSG) and other ring-fenced grants, which have to be carried forward for school purposes. Unless an over spend arises, the outturn position is therefore automatically in line with the cash-limit, as the cash-limit is adjusted for the carry forward of grants.
- 2.11. In total for 2015/16 there was a net over spend of approaching £4.3m against the schools budget and this will be met through the use of DSG that was previously carried forward. As a consequence of this the overall total of DSG available will be £19.5m and the final allocation of how this money will be used has already been or will be agreed by the Schools Forum later in the year.

Item 9 ANNEX 1 (Cabinet Report)

Other Budgets

2.12. The outturn for other items contained within in the budget is shown in the following table:

	(Under) / Over Spend £m
Capital Financing / Interest on Balances	(6.8)
Waste Management	(1.4)
Contingencies	(14.7)
Increase in Doubtful Debt Provision	1.4
Other Net Variations	0.4
TOTAL	<u>(21.1)</u>

2.13. The main reasons for these variances are set out in the paragraphs below.

Capital Financing and Interest on Balances (£6.8m under spend)

2.14. This under spend reflects a continuing trend in previous years of a very prudent approach to capital financing costs and interest on balances. The final outturn position reflects lower capital financing costs as a result of the use of 'internal borrowing' to fund capital expenditure rather than taking out long term loans at this point and the amended Minimum Revenue Provision policy which was approved by Cabinet in December 2015. In line with the County Council decision in February, £500,000 has been transferred to a new reserve to mitigate the slight additional risk associated with the revised approved investment strategy.

Waste Management (£1.4m under spend)

2.15. Due to the number of variables associated with the provision of the Waste Management contract, separate central provisions are made within the budget each year and released in line with changes in waste volumes or contract terms. Whilst waste volumes stabilised in previous years, requiring less to be drawn from contingencies, 2014/15 saw the first real increase in volumes for several years and the provision in 2015/16 was reviewed in light of this.

2.16. This trend in 2015/16 has been less than forecast resulting in an under spend but close scrutiny of waste volumes will be required throughout 2016/17 to understand and refine prediction of future costs.

Contingencies (£14.7m under spend)

2.17. The level of contingencies held as part of the 2015/16 budget reflected the fact that more than £100m had been removed from the budget and that

Item 9 ANNEX 1 (Cabinet Report)

there were risks and potential timing issues around the delivery of the savings programme that had been put in place.

- 2.18. The pressures around the demand and costs for the provision of social care services are well documented and the risk around these services was recognised through provision in contingencies. Through strong management, applied to manage demand and suppress the additional costs, savings against these contingency amounts were realised.
- 2.19. Other contingencies which were not required in the year related to a central provision for carbon allowances and inflation / risk provisions (in particular for energy and business rates) which accounted for the balance of the overall saving within contingencies.

Doubtful Debt Provision (£1.4m over spend)

- 2.20. The County Council's policy is to make a provision against a proportion of debts that could prove to be irrecoverable. The provision is assessed on the basis of the age profile of outstanding debts and partly on the probability of specific larger debts being irrecoverable. There is no annual budgeted amount because the provision varies significantly from year to year.

Other Net Variations (£0.4m over spend)

- 2.21. This relates to a number of smaller variances, including an over spend in the coroners service, due to a higher than anticipated number of inquests which are difficult to predict.

Allocation of Net Under Spend

- 2.22. The net under spend totals £21.1m and it is recommended that £1m of this under spend is set aside to fund the next phase of management development costs under the Workforce Development Strategy. The County Council has previously identified the importance of capacity and an appropriately skilled workforce and this underlines the ability of the Council to continue to invest even during a prolonged period of austerity.
- 2.23. It is proposed to transfer the balance of £20.1m to the Grant Equalisation Reserve (GER) bringing the level in the reserve up to £75.2m, of which £44m will be utilised in 2016/17 as agreed by the County Council as part of budget setting in February
- 2.24. The balance in the GER will then be utilised to provide additional funding to support the revenue budget in future years as set out in the Medium Term Financial Strategy to 2020 report to Cabinet elsewhere on the agenda.

Devolution

- 2.25. Following the Leader's announcement at County Council on 13 May and the urgent Cabinet meeting on 6 June, the County Council is continuing to develop options for local government across Hampshire.

Item 9 ANNEX 1 (Cabinet Report)

- 2.26. A key strand of this work is to carry out an extensive public consultation exercise on the future of local government in Hampshire, including on elected mayors, combined authorities and unitary government.
- 2.27. The cost of the consultation exercise is expected to be in the region of £150,000, depending on the final format and scope of the consultation process and on 6th June Cabinet approved the use of general contingencies to cover the costs of this exercise.
- 2.28. In addition, the programme team that was previously working on the devolution proposals for Hampshire will need to stay in place for a large part of the financial year to support the wider programme and there may be other costs that need to be met as and when the different options develop during and after the consultation exercise.
- 2.29. This report therefore seeks delegated authority for the Chief Executive in consultation with the Director of Corporate Resources and the Leader to draw down funding from general contingencies during the year to support the development of local government options across Hampshire.

3. General Balances and Earmarked Reserves

- 3.1. General Balances at the 31 March 2016 stand at £20.6m, which is broadly in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement.
- 3.2. In addition to the General Balance, the County Council maintains earmarked reserves for specific purposes and to a large extent a significant proportion of these is committed either to existing revenue or capital programmes or to mitigate risks that the County Council faces through self insurance or funding changes by Government.
- 3.3. At the time of writing this report, the actual value of earmarked reserves has not been finalised within the accounts, but in overall terms the total value of earmarked reserves will increase in line with the MTFS as provision is built up in departmental cost of change reserves to enable support of transformation and of revenue spend whilst savings programmes are put in place, and in the GER, ahead of a large draw in 2016/17.
- 3.4. The net impact of the changes in the revenue account during 2015/16 mean that the GER will stand at £75.2m, which is in line with the financial strategy of supporting the revenue spend position during 2016/17 in order to give the County Council the time and capacity to implement the Tt2017 programme for the 2017/18 financial year, and for future years as we begin the next phase of transformation to take us to 2020.
- 3.5. Other earmarked reserves will fall due to the use of them in line with their intended purpose, in particular in funding the capital programme. Schools balances, over which the County Council has no direct control, are expected to increase.
- 3.6. Each year, the Chief Financial Officer (CFO) reviews the level of reserves and the purpose for which they are held and it is recommended that

Item 9 ANNEX 1 (Cabinet Report)

authority be delegated to the CFO to make any changes to reserves that result from this review. Any changes will be reported as part of the final accounts process and to Cabinet later in the year as part of the development of the budget for 2017/18.

4. Treasury Management and Prudential Indicators

- 4.1. The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. Under the Treasury Management Code of Practice, the end of year report has to be submitted to the County Council.
- 4.2. The annual report recommends the approval of the changes to the 2016/17 Treasury Management Strategy to increase the limit of principal sums invested for periods longer than 364 days to £350m for 2016/17, and £300m for 2017/18 and 2018/19, and more detail is contained in Section 9 of Appendix 2.
- 4.3. The Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy. Appendix 2 summarises the relevant indicators for the 2015/16 outturn which are in accordance with the figures approved by the County Council.

5. Capital Spending and Financing 2015/16

- 5.1. £185.8m of capital schemes were committed during the year, leaving £56.0m to be carried forward to 2016/17, subject to Cabinet's approval.
- 5.2. Capital expenditure of £204.3m was incurred, which can all be financed within available resources, this includes £3.5m of spending on the street lighting PFI scheme which will be funded by means of a finance lease funded by from government grant.
- 5.3. Prudential borrowing of £19.1m will be taken out to support the programme, although there will also be a further repayment of prudential borrowing from capital receipts and other funding sources of £5.1m. Further details of the outturn position for capital are provided in Appendix 3.

6. Assurance Statement

- 6.1. The code of Practice on Local Authority Accounting in the UK requires the County Council within its Statement of Accounts to publish an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in the County Council as a whole. The Chief Internal Auditor's Annual Report and Opinion is approved by the Audit Committee.
- 6.2. The Chief Internal Auditor has concluded that:

Item 9 ANNEX 1 (Cabinet Report)

“In my opinion, Hampshire County Council’s framework of governance, risk management and management control is ‘Adequate’ and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”

7. Pension Fund

- 7.1. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council’s Statement of Accounts. The accounts for 2015/16 record that the value of the fund’s assets increased to £5.2bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that:

“In my opinion, based on internal audit work completed ‘Substantial Assurance’ can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”

8. Final Accounts

- 8.1. The final accounts must be submitted for audit by 30 June each year. The purpose of this report is to outline the key issues arising from the outturn position for 2015/16, although given the much earlier report publication times for this Cabinet meeting, it is possible that there will be minor changes within the accounts that will have to be reflected in the version that is submitted for audit.
- 8.2. The Accounts and Audit Regulations 2015 have introduced changes to the statutory accounting and audit timescales which will have a significant impact the organisation. The changes come into effect for the preparation of the 2017/18 accounts when the draft accounts must be certified by the CFO by 31 May 2018 (a month earlier than at present). Additionally, the audited accounts for 2017/18 must be published by 31 July 2018 (two months earlier than the current timeframe).
- 8.3. We are taking an incremental approach and for 2015/16, the deadline for CFO sign off of the accounts has been brought forward by two weeks. For 2016/17 this will be brought forward by a further two weeks to allow a trial run in anticipation of the changes coming into effect for the production of the 2017/18 accounts.
- 8.4. Achieving these challenging timescales will require concerted effort from across the organisation. The timetable has been reviewed, following consultation with affected parties, with a focus on what can be done either differently or earlier and what systems or processes can be changed to facilitate the achievement of the ultimate objective of a speedier closedown.

9. Recommendations

RECOMMENDATIONS TO CABINET

- 9.1. That the outturn position set out in Section 2 be approved.
- 9.2. That the transfer of £1m to the Corporate Policy Reserve be approved to fund the next phase of management development costs under the Workforce Development Strategy.
- 9.3. The transfer of the overall net under spend to the Grant Equalisation Reserve be approved.
- 9.4. That delegated authority be given to the Chief Executive in consultation with the Director of Corporate Resources and the Leader to draw down funding from general contingencies during the year to support the development of local government options across Hampshire.
- 9.5. That delegated authority be given to the Director of Corporate Resources to make any final changes to the outturn position presented in this report prior to the accounts being submitted for audit by 30 June 2016.
- 9.6. That delegated authority be given to the Director of Corporate Resources to make any to make any changes to reserves resulting from the annual review.
- 9.7. That service capital programme cash limits for 2016/17 be increased to reflect the carry forward of capital programme schemes and shares of capital receipts, as set out in Appendix 3.
- 9.8. **It be a Cabinet recommendation to Council that:**
 - a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2 be approved.
 - b) The changes to the 2016/17 Treasury Management Strategy to increase the limit of principal sums invested for periods longer than 364 days to £350m for 2016/17, and £300m for 2017/18 and 2018/19, as detailed in Section 9 of Appendix 2 be approved.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

- a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2.
- b) The changes to the 2016/17 Treasury Management Strategy to increase the limit of principal sums invested for periods longer than 364 days to £350m for 2016/17, and £300m for 2017/18 and 2018/19, as detailed in Section 9 of Appendix 2.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	Yes/No
Maximising well-being:	Yes/No
Enhancing our quality of place:	Yes/No

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

- a) Equality objectives are not considered to be adversely impacted by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, but the County Council through the services that it provides through the revenue budget and capital programme ensures that prevention of crime and disorder is a key factor in shaping the delivery of a service / project.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Integral Appendix B

The County Council in designing its services will ensure that climate change issues are taken into account.

Adults' Services Department – Revenue Expenditure 2015/16

Major variations in cash limited expenditure – No variance against the adjusted cash limit.

Main variations

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Director	1,229	63.6	The pressure relates to unfunded posts both within the service areas and in the department as a whole (these will be offset by under spends elsewhere within the department), and one off costs relating to the Senior Management restructure.
Policy and Strategic Commissioning	1,925	7.2	The pressure relates to the non achievement of the vacancy factor and unachieved savings from printing and IT budgets.
Integrated Services (East and West)	2,370	1.9	There are significant pressures on both purchased nursing and residential due to higher than budgeted client numbers and above budgeted weekly costs. These pressures have been partially offset by under spends in direct payments and homecare budgets where client numbers are less than budgeted.
Head of Quality and Safeguarding	126	4.9	The main area of pressure is within the DoLS team due to the increased number of Best Interest Assessments that are required to be carried out following the Cheshire West judgement.
Integrated Delivery	2,282	7.6	The main area of pressures within in-house is staffing due to pressures relating to the use of agency staff in order to meet statutory requirements whilst vacant posts are filled.

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Integrated Commissioning	1,623	9.0	There are significant pressures on purchased nursing, residential and homecare due to higher than budgeted client numbers.
Head of Disabilities	608	0.5	There are significant pressures on direct payments budgets due to a significant increase in client numbers. There are also pressures in relation to respite budgets and transport. The pressures were partially offset by an under spend in homecare which is due to higher than budgeted income.
Contingencies	(10,163)	(149.4)	This relates to the management of departmental contingencies which have been used to off-set the department's overall pressure.
Total	0	0.0	

Children's Services Department - Revenue Expenditure 2015/16

Major variations in cash limited expenditure – No variance against the adjusted cash limit.

Main variations

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Schools Budget			
Growth Fund	852	16.2	There has been a significant increase in the number of schools that are eligible for growing schools funding mainly due to demand for more basic need places at primary school age.
Three and Four Year Old Free Entitlement	(1,470)	(2.9)	This primarily relates to take-up being lower than estimated and additional Dedicated Schools Grant (DSG) based on the census change from January 2014 to January 2015. This also includes an under spend on the Early Years Pupil Premium Grant due to lower sign up from families.
Special, Statemented & Post 16 Top-up Funding	4,056	16.1	This over spend is as a result of significant increases to the number of requests for statutory assessments, following legislative changes, the number of pupils in special schools and the number of high needs learners in post-16 provision. Further pressures are expected into 2016/17 as high needs pupil numbers continue to increase, which has been factored into the budget strategy.
Independent and Non-maintained Special Schools	1,126	8.7	Higher than expected pupil numbers and related costs, with an increasing number of tribunal cases.

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Various Other (net)	(305)	(0.1)	
Carry Forward of Dedicated Schools Grant	(4,259)		The Department for Education (DfE) allows any unspent DSG funds to be carried forward each year and ring-fenced for schools purposes. The total 2015/16 over spend of £4.3m has been met by DSG carry forward. The remaining balance is the part of the total DSG to be carried forward of £19m. Of this, £11.2m has been committed as agreed with Schools Forum, with £7.8m currently unallocated.
Sub-total Schools Budget	0	0.0	
Non-Schools Budget			
Other Education & Community - Learner Support	1,603	5.7	Mainly relating to a pressure on the Home to School Transport budget as a result of increased demand for school age and post-16 SEN transport compared to last year, which is partially offset by additional income.
Services for Young People	(351)	(11.4)	Public Health has contributed funding towards youth support work.
Central Budgets	(616)	(100.0)	Contingency relating to cost of change not allocated but used to offset the department's other pressures.
Services for Young Children	(671)	(8.1)	Mainly due to staff vacancies through the year and an over achievement of the training subscription. There has also been an early achievement of transformation savings relating to staffing.

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Assessment & Care Management	2,467	15.2	Pressure resulting from the use of social work agency staff.
Children Looked After (CLA)	(791)	(1.4)	A decrease of 2.2% in CLA activity between March 2015 (1,339) and March 2016 (1,309) arising partly from the early impact of the Active Agents for Change social care innovation programme. This also includes an under spend of £166,000 on the virtual school.
Family Support Services	599	4.2	This relates to support services for disabled children. Increased demand relates to pressures on home care and direct payments
Youth Justice	378	21.6	Lower income at Swanwick Lodge Secure Unit as a result of planned temporary bed closures and Hampshire children being placed in the welfare beds during the year, thereby reducing income from other local authorities.
Leaving care service	2,332	79.9	Pressure on the leaving care service as a result of increased numbers leading to an increase in supported lodgings and support activity. The £2.3m pressure is being addressed as a separate workstream as part of the Tt2017 programme with a savings target of a further £200,000.
Adoption Service	846	23.1	Mainly due to interagency fees, where Hampshire is paying for more placements and has reduced income from other local authorities. However, this pressure has been partially offset by government grant.
Various Other (net)	(1,316)	(4.3)	
Contribution from cost of change	(4,480)		

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Sub-total Non-Schools Budget	0	0.0	
Total	0	0.0	

Economy, Transport & Environment Department - Revenue Expenditure 2015/16

Major variations in cash limited expenditure – Underspend of £9.5m (8.3%) against the adjusted cash limit.

Main variations

Service Area	(Under) / Over		Reason for Variation
	Spend		
	£000	%	

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Highways, Traffic and Transport	(6,436)	(10.1)	<p>The mild and dry winter has resulted in savings against the winter maintenance budget of £1.8m. In addition, Government funding in the form of Bus Service Operator Grant (BSOG), previously provided directly to bus operators, was devolved to local authorities on the basis that it would be ring-fenced only until 2016/17. In view of this, operators bidding for tendered services in Hampshire from 2015 were advised to price on the assumption that BSOG would no longer be paid separately to them. Evidence indicates that operators have been able to absorb the loss of BSOG and this, together with other tender price savings, has resulted in a one-off saving of £1.7m and proposals are being developed to invest in one-off improvements during 2016/17 that meet the grant conditions. Further savings in the public transport budget relate to lower than anticipated bus operator appeals against their level of Concessionary Fares reimbursement (£401,000) and other net savings in areas such as passenger information systems and Community Transport totalling £290,000.</p> <p>The balance of the saving resulted from Engineering Consultancy (increased size of work programme, external income, productivity improvements), growth in income generation and staff vacancies (particularly in areas where recruitment and retention are challenging) partly offset by additional costs associated with the need to deploy temporary or consultant resources.</p>

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Waste, Planning and Environment	(276)	(0.6)	The savings have arisen from additional planning fee income together with vacancy savings. The drier winter has also meant less need for consultant support e.g. for flooding investigations.
Economic Development	(89)	(6.5)	The position reflects additional external fee income and staff vacancies.
Departmental Support	(409)	(15.1)	The position reflects the net impact of interim changes at DMT level following secondments to lead two corporate workstreams together with various smaller savings against departmental non-pay budgets.
Contribution to cost of change	(2,290)	(158.0)	The result reflects the planned early achievement of 2017/18 savings during the year together with the transfer to revenue of holding account balances no longer required for their original purpose.
Total	(9,500)	(8.3)	

Policy and Resources - Revenue Expenditure 2015/16

Major variations in cash limited expenditure – Under Spend of £12.1m (7.5%) against the adjusted cash limit.

Main variations

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Corporate Services	(4,239)	(8.2)	Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure through further joint working and generating income, for example for legal, internal audit and other services. This has enabled the costs to support the Tt2017 Programme to be absorbed and also ensured early achievement of 2017/18 savings to contribute to the cost of change reserve to be used for future investment in further transformation work.
Public Health	(431)	(0.9)	Public Health's priority spending plans were set in anticipation of an in year grant reduction. Therefore when a reduction of £3m was confirmed, the revised budget was increased by only approaching £1.3m, funded from the Public Health reserve. Ongoing sound financial management resulted in actual spend being lower than the revised budget. This was achieved owing to lower costs resulting from service efficiency in the areas of Nutrition, Obesity and Physical Activity and Health checks and reduced spend in Miscellaneous health improvements and wellbeing. In addition, a Health Premium Incentive grant of £110,000 was received having achieved the locally set target for health checks.

Appendix 1 to Cabinet Report

Service Area	(Under) / Over Spend		Reason for Variation
	£000	%	
Culture, Community and Business Services	(6,181)	(15.9)	Continued strong financial management ensured that the Department's outturn position benefited from the over achievement of 2015/16 savings, early achievement of 2017/18 savings and a planned underspend on the Printsmart contract (totalling £4.4m). In addition reductions and delays in expenditure (mainly Libraries, Registration, Community, Outdoors and Countryside) together with additional income (Trading Standards, Countryside and Outdoors) contributed to the overall under spend that will be added to the Department's Cost of Change reserve and used for transformation projects.
Non departmental Policy & Resources	(1,245)	(5.4)	The variance largely reflects early achievement of 2017/18 savings across a number of budgets including the external audit fee, Members' and Corporate expenses. During 2015/16, the former capital budget for repairs and maintenance was transferred to this part of Policy and Resources. The net position, reflects an under spend on non-schools planned maintenance works. This is a result of the lead in time to commit works of a more complex nature requiring project design and procurement before orders can be raised. Unused budgets for Rural Affairs and Members Devolved budgets will be carried forward to match future expenditure.
Total	(12,096)	(7.5)	

Appendix 2 to Cabinet Report

Annual Treasury Outturn Report 2015/16

1. Purpose

- 1.1. The County Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.

2. Summary

- 2.1. Treasury management in the context of this report is defined as:

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 2.2. This annual report sets out the performance of the treasury management function during 2015/16, to include the effects of the decisions taken and the transactions executed in the past year.

- 2.3. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the County Council’s treasury management objectives.

- 2.4. All treasury activity has complied with the County Council’s Treasury Management Strategy and Investment Strategy for 2015/16, and all relevant statute, guidance and accounting standards. In addition the County Council’s treasury advisers, Arlingclose, provide support in undertaking treasury management activities.

- 2.5 The County Council has complied with all of the prudential indicators set in its Treasury Management Strategy; these are detailed fully in Appendix A.

- 2.6 **This report recommends the approval of the changes to the 2016/17 Treasury Management Strategy to increase the limit of principal sums invested for periods longer than 364 days to £350m for 2016/17, and £300m for 2017/18 and 2018/19, as detailed in Section 9.**

3. External Context

- 3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2015/16.

Growth, Inflation, Employment

- 3.2. The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through

Appendix 2 to Cabinet Report

2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year on year in February, but this was still well below the Bank of England's 2% inflation target.

- 3.3. The labour market continued to improve through 2015 and in Quarter 1 of 2016, the latest figures (January 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

UK Monetary Policy

- 3.4. The Bank of England's Monetary Policy Committee (MPC) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

4. Local Context

- 4.1. At 31 March 2016 the County Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £756m, while usable reserves and working capital which are the underlying resources available for investment were £503m (principal invested plus gains on investments with a variable net asset value).
- 4.2. At 31 March 2016, the County Council had £346m of borrowing and £496m of principal invested. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 4.3. The County Council's CFR is forecast to reduce in 2016/17 and its capital programme does not include any need to borrow externally over the forecast period. Investments are forecast to fall as capital receipts and internal borrowing are used to finance capital expenditure.

Appendix 2 to Cabinet Report

5. Borrowing Strategy

- 5.1. At 31 March 2016 the County Council held £346m of loans, (a decrease of £15m on the previous year) as part of its strategy for funding previous years' capital programmes.
- 5.2. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.
- 5.3. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained lower than long-term rates, and are likely to remain so at least over the forthcoming two years, the County Council determined it was more cost effective in the short-term to use internal resources instead of taking out new borrowing.
- 5.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the County Council with the monitoring of internal and external borrowing.

Table 1: Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	Net New Borrowing £m	Balance on 31/03/2016 £m
CFR	761.6		755.7
Short Term Borrowing ¹	11.5	1.0	12.5
Long Term Borrowing	349.8	(16.5)	333.3
Total Borrowing	361.3	(15.5)	345.8
Other Long Term Liabilities	180.2	(4.7)	175.5
Total External Debt	541.5	(20.2)	521.3
Increase/ (Decrease) in Borrowing £m			(15.5)

¹ Loans with maturities less than 1 year – the increase reflects more loans falling into this category in the last financial year, rather than new borrowing.

- 5.5. During 2015/16 the County Council repaid £11.54m of maturing PWLB debt, and did not replace this borrowing. This will reduce the future cost of interest payments on the County Council's external debt.

Lender's Option Borrower's Option (LOBOs)

- 5.6. The County Council holds £73m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in 2015/16.

Debt Rescheduling

- 5.7. The premium charged for early repayment of PWLB debt remained relatively expensive for the loans in the County Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence. However, consideration continues to be given to any advantageous opportunity for the County Council to reduce or restructure its debt portfolio.

6. Investment Activity

- 6.1. The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.
- 6.2. The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities, means that the risks of making unsecured deposits rose relative to other investment options. The County Council therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.
- 6.3. The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council's investment balances have ranged between £490m and £633m.
- 6.4. The Guidance on Local Government Investments in England gives priority to security and liquidity and the County Council's aim is to achieve a yield commensurate with these principles.

Appendix 2 to Cabinet Report

Table 2: Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Balance on 31/03/2016 £m	Average Rate/Yield on 31/03/2016 %	Average Life on 31/03/2016 Years
Short term Investments				
- Banks and Building Societies:				
- Unsecured	207.1	55.7	0.71	0.09
- Secured	15.0	27.8	0.84	0.73
- Money Market Funds	47.8	66.1	0.49	0.00
- Local Authorities	28.0	92.5	0.78	0.41
- Corporate Bonds	15.9	10.0	0.86	0.85
Long term Investments				
- Banks and Building Societies:				
- Secured	0.0	65.0	1.01	2.20
- Local Authorities	137.5	113.5	2.08	2.44
Long term Investments – high yielding strategy				
- Local Authorities				
- Fixed deposits	20.0	20.0	3.96	17.97
- Fixed bonds	10.0	10.0	3.78	17.77
- Pooled Funds	10.0	35.0	4.90 ²	n/a
Total Investments	491.3	495.6	1.55	2.08
Increase/ (Decrease) in Investments £m		4.3		

6.5. During 2014/15 the County Council diversified its range of investments in order to reduce the risk of loss of funds. This process has continued in 2015/16. Over the year the County Council reduced its exposure to unsecured bank and building society investments by increasing its exposures to secured bank and building society investments, money market funds (which have a reduced exposure to bail-in investments), and other local authorities. The County Council has also invested more of the allocation to the high yield strategy through further investing in the pooled property funds.

² Income return at 31/03/2016

Appendix 2 to Cabinet Report

- 6.6. As part of the 2014/15 Investment Strategy it was agreed to target £90m for higher yielding investments such as long-term investments with other Local Authorities, or equity, bond or property investments. This amount is in addition to £15m that was identified for long term investments associated with the Street Lighting PFI. Investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 6.7. The fall in long term interest rates since the decision to target higher returns has limited the opportunities that have been available for advantageous long term investments. Of the £105m available £65m has been invested, and in addition £20m in total has been committed to two long-term pooled equity funds.
- 6.8. The investments in property funds allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the County Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.
- 6.9. Although money can be redeemed from the pooled funds at short notice, the County Council's intention is to hold them for the medium-term. Their performance and suitability in meeting the County Council's investment objectives are monitored regularly and discussed with Arlingclose.
- 6.10. Security of capital has remained the County Council's main investment objective. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy Statement (TMSS) for 2015/16.
- 6.11. Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 6.12. The County Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.13. The County Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The County Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate has been maintained at 0.5% since March 2009 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.

Appendix 2 to Cabinet Report

- 6.14. The County Council's average cash balances were £558m during the year and interest earned for the year was £8.0m, giving a yield of 1.43%.

7. Compliance with Prudential Indicators

- 7.1. The County Council confirms compliance with its Prudential Indicators for 2015/16 that were set in February 2015 as part of the County Council's TMSS.

8. Treasury Management Indicators

- 8.1. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

- 8.2. This indicator is set to control the County Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

Table 3 – Interest Rate Exposures

	Approved limits for 2015/16	Maximum during 2015/16	Compliance with limits:
Upper limit on fixed interest rate investment exposure	£285m	£178m	Yes
Upper limit on variable interest rate investment exposure	£800m	£465m	Yes
Upper limit on fixed interest rate borrowing exposure	£800m	£458m	Yes
Upper limit on variable interest rate investment exposure	£800m	£128m	Yes

- 8.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

- 8.4. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 4 – Maturity Structure of Borrowing

	Upper	Lower	Actual
Under 12 months	50%	0%	3.6%
12 months and within 24 months	50%	0%	3.9%
24 months and within 5 years	50%	0%	8.8%
5 years and within 10 years	75%	0%	12.6%
10 years and within 20 years	75%	0%	44.8%
20 years and within 30 years	75%	0%	24.5%
30 years and above	100%	0%	1.8%

Principal Sums Invested for Periods Longer than 364 days

- 8.5. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 5 – Principal Sums Invested for Periods Longer than 364 days

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£285m	£250m	£250m
Actual	£244m		

9. Changes to the 2016/17 Treasury Management Strategy

- 9.1. In the 2016/17 Treasury Management Strategy, the County Council authorised a revised limit on principal sums invested for periods longer than 364 days of £285m in line with the limit set for 2015/16. Due to the stability of funds, it would be prudent to increase this limit to £350m for 2016/17 (and £300m for 2017/18 and 2018/19) to allow for further funds to be invested over a longer period so as to provide greater flexibility for managing investments, and to take advantage of current investment opportunities in the full range of investments that meet the County Council's objectives of security of capital whilst maximising yield.

Table 6 – Principal Sums Invested for Periods Longer than 364 days

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£350m	£300m	£300m

- 9.2. Increasing the principal sum invested for periods longer than 364 days requires other limits to also be increased so as to comply with the new limit. These new limits are shown in the tables below:

Table 7 – Non-Specified Investment Limits

	Cash limit
Total long-term investments	£350m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£190m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£540m

Prudential Indicators 2015/16

The Local Government Act 2003 requires the County Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the County Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The County Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme report.

Capital Expenditure and Financing	2015/16 Approved £m	2015/16 Revised £m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
Total Expenditure	236	243	204	237	219
Capital receipts	16	13	10	6	9
Grants and other income	120	134	139	195	176
Revenue contributions	68	11	9	12	7
Contributions from reserves	6	68	29	11	13
Total Financing	210	226	187	224	205
Prudential borrowing	31	17	19	22	19
Less repayments from capital receipts etc	(5)	(5)	(5)	(9)	(5)
Finance lease	-	5	3	-	-
Total Funding	26	17	17	13	14
Total Financing and Funding	236	243	204	237	219

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the County Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Approved £m	31.03.16 Revised £m	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	765	753	756	739	724

The CFR is forecast to fall by £32m over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Approved £m	31.03.16 Revised £m	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	343	343	370	330	316
PFI liabilities	176	177	178	168	159
Total Debt	519	520	548	498	475

Total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt

The operational boundary is based on the County Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2015/16 Approved £m	2015/16 Revised £m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	620	620	370	610	600
Other long-term liabilities	180	180	178	170	160
Total Debt	800	800	548	780	760

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the County Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Approved £m	2015/16 Revised £m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	650	640	370	640	630
Other long-term liabilities	220	230	178	210	200
Total Debt	870	870	548	850	830

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved %	2015/16 Revised %	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	6.99	5.87	5.97	5.73	5.61

Adoption of the CIPFA Treasury Management Code

The County Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2010.

Capital Spending and Financing 2015/16

1. Introduction

1.1 This Appendix reports that:

- Capital schemes costing £185.8m were started during 2015/16 from the approved capital programme for the year of £252.7m.
- This left £56.0m for named projects not started by 31 March 2016 which will be carried forward to 2016/17, subject to Cabinet's approval.
- Capital payments of £204.3m were incurred in 2015/16 and this can be financed within available resources.
- This includes capital payments of £3.5m on the street lighting private finance initiative scheme which will be financed by means of a finance lease funded from Government grant.
- It is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £19.1m is used in 2015/16 to fund previously approved schemes. Government grant support will not be available to finance this borrowing.
- Repayments of prudential borrowing from capital receipts and other sources total £5.1m in 2015/16.
- £20.5m of resources will be drawn down from the capital reserve in 2015/16 for use in funding payments incurred in 2015/16.
- Capital receipts of £9.6m were achieved from the sale of assets in 2015/16.

2. Capital Programme for 2015/16

2.1 Table 1 below shows that 73.5% of the capital programme for 2015/16 of £252.7m was started in the year.

Table 1 - Capital Schemes Committed in 2015/16

	£'000	%
Approved value of the capital programme for 2015/16	252,682	100.0%
Schemes committed in 2015/16	185,805	73.5%
Balance of Cash Limit at 31 March 2016	66,877	26.5%
Schemes for which approval to carry forward to 2016/17 is now requested	56,008	22.2%
Schemes previously approved for carry forward	10,869	4.3%
Total Cash Limit to be Carried Forward to 2016/17	66,877	26.5%

2.2 An analysis by service of the figures in Table 1 is included in Annex 1.

3. Carry Forward of Schemes not Committed by 31 March 2016

- 3.1 The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2016. The total value of such schemes is £66.9m. This includes £8.1m of Children’s Services and £2.7m of Economy, Transport and Environment schemes for which approval to carry forward to 2016/17 has previously been given during 2015/16. These amounts are largely committed against named projects.
- 3.2 As Table 2 shows, the proportion of the 2015/16 programme committed in the year, at 73.5%, is slightly lower than the level achieved in 2015/16. Given the significant size of the overall capital programme for 2015/16, this is a good achievement.

Table 2 – Percentage of Capital Programme Committed

	2014/15 £m	2015/16 £m
Value of projects		
- committed	274.7	185.8
- carried forward	61.2	66.9
Total Programme	335.9	252.7
Percentage committed	81.8%	73.5%

- 3.3 Individually, most of the schemes and provisions to be carried forward are relatively small amounts. The larger schemes include:
- Extra care housing younger adults project (£6.0m) – sites are being considered.
 - Extra care housing transformation (£4.1m) – projects are being considered.
 - Improvements at Schools (£6.1m) – future projects planned and contracts being let.
 - Children’s Services contingency provision carried forward to cover future pressures on the capital programme (£9.6m).
 - Structural maintenance of roads and bridges – future projects planned which are awaiting other sources of funding (£3.0m).
 - Capital repairs schemes funded from local resources and Government grant (£10.3m).
 - Strategic land promotion, development and disposal (£3.0m).

Appendix 3 to Cabinet Report

4. Capital Expenditure and Financing 2015/16

- 4.1 Total expenditure actually incurred in 2015/16, arising from the capital programme for 2015/16 and earlier years, was £204.3m. This is £39.1m or 16.0% lower than the revised estimate for 2015/16. The timing of capital expenditure flows between financial years is often difficult to predict. The delays in committing a fair proportion of the capital programme for 2015/16, as shown in Table 2, will have reduced the level of payments in the year.
- 4.2 An analysis of the expenditure of £204.3m by service and type is included in Annex 2.
- 4.3 The proposed method of financing this expenditure is summarised in Table 3:

Table 3 – Capital Financing 2015/16

	Adjusted Revised Estimate £'000	Actuals £'000	Variation £'000
Finance lease for street lighting PFI	5,060	3,542	(1,518)
Prudential borrowing			
- for capital schemes	16,952	19,099	(2,147)
- repayments of specific schemes	(5,128)	(5,088)	(40)
Government capital grants	90,262	91,513	1,251
Contributions from developers and outside agencies	43,548	47,289	3,741
Capital receipts	13,024	9,571	(3,453)
Revenue reserves	8,588	8,589	1
Revenue contributions			
- general corporate provision	9,317	9,317	0
Total Capital Resources	181,623	183,832	2,209
Transfers from / (to) capital reserve			
- planned use of capital reserve to fund payments	61,834	20,522	(41,312)
Total funding for payments in 2015/16	243,457	204,354	(39,103)

- 4.4 Spending on locally resourced capital schemes in 2015/16 was lower than estimated, particularly on structural maintenance of roads and bridges, and the unused resources of £7.0m will be carried forward to 2016/17.

Appendix 3 to Cabinet Report

5. Borrowing

- 5.1 Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from the Government, provided their actions meet the requirements of the Prudential Code for Capital Finance introduced by the Local Government Act 2003. This is known as 'prudential borrowing'. It does not attract any support from the Government towards the repayment and interest costs, which fall wholly on the County Council's own resources.
- 5.2 Cabinet agreed criteria for the use of prudential borrowing in November 2003, with revisions in February 2006. Since then, its use has been agreed for a number of capital schemes, primarily on an invest-to-save basis. It is proposed that a total of £19.1m is borrowed in 2015/16 for these schemes, in accordance with the approved criteria.
- 5.3 Prudential borrowing of £5.1m has been repaid in 2015/16 from the use of capital receipts, developer and other contributions.
- 5.4 The Prudential Code includes a number of indicators intended to illustrate whether local authorities are acting prudently. The County Council's latest position on these prudential indicators following the 2015/16 outturn is summarised in Appendix 2. It shows that the County Council continues to be in full compliance with the requirements of the Code.
- 5.5 Capital grants from the Government of £91.5m have also been used to finance capital expenditure in 2015/16.

6. Capital receipts

- 6.1 Capital receipts from the sale of land and property in 2015/16 were £9.6m in total. This has been used to fund capital expenditure in the year.
- 6.2 Services' proposed shares of capital receipts in 2015/16 are summarised in Annex 3. The County Council's policy allows services to retain 25% of capital receipts from the sale of their assets, with up to 100% for approved rationalisation schemes.
- 6.3 In line with this policy, services are entitled to £4.6m of the £9.6m received in 2015/16. Cabinet has previously approved the addition of majority of this amount to services' capital programmes, leaving a total of £0.7m for which approval is now required for allocation to services, as set out in Annex 3.

Analysis of Capital programme 2015/16 and Requests by Services to Carry Forward Capital Schemes to 2016/17

	(1) Approved Value of Programme	(2) Schemes Committed in 2015/16	(3) Schemes for Which Approval to Carry Forward is Requested	(4) Schemes Already Approved for Carry Forward	Total Cash Limit Carried Forward to 2016/17 (Columns 3+4)
	£'000	£'000	£'000	£'000	£'000
Adults' Services	33,369	19,003	14,366	-	14,366
Children's Services	75,578	47,557	19,902	8,119	28,021
Economy, Transport & Environment	83,901	76,840	4,311	2,750	7,061
Policy & Resources	59,834	42,405	17,429	-	17,429
Total	252,682	185,805	56,008	10,869	66,877
	100.0%	73.5%	22.2%	4.3%	26.5%

The amounts to be carried forward are largely committed against named projects

Summary of Capital Expenditure in 2015/16

Analysis by service

	£'000	%
Adults' Services	9,304	4.5
Children's Services	77,672	38.0
Economy, Transport & Environment	87,554	42.9
Policy and Resources	29,824	14.6
	204,354	100.0

Analysis by type of expenditure

	£'000	%
Land	3,643	1.8
Construction work	149,875	73.4
Fees and salaries	25,948	12.7
Furniture, equipment and vehicles	9,887	4.8
Pooled Property Fund	15,000	7.3
	204,354	100.0

Analysis of Capital Receipts 2015/16

	Net Capital Receipts	Costs of Sales	Shares from in/out and Other Schemes		25% Share of Qualifying Receipts Now Due to Services
	£'000	£'000	Previously Added to Programme £'000	Now Available to be Added to Programme £'000	£'000
Adults' Services	2,860	6	1,979	0	0
Children's Services	794	0	20	490	0
Economy, Transport & Environment	584	6	0	0	145
Policy & Resources	5,333	13	1,821	30	25
	9,571	25	3,820	520	170
Total now to be added to services' programmes				690	

THIS PAGE IS INTENTIONALLY LEFT BLANK