

Cabinet

Report Title:	2016/17 Forecast Revenue and Capital Spending
Meeting Date:	15 November 2016
Lead Councillor(s):	Councillor Richard Smith MVO
Local Councillor(s):	All Councillors
Director:	Geoff Dobson, Director of Resource Management 01473 264347
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Brief summary of report

1. This report presents a forecast for the 2016/17 revenue and capital budgets based on expenditure trends and information available at the end of September 2016. It is forecast that the revenue budget will be overspent by £9.5m of which £3.4m will be funded from the Dedicated Schools Grant (DSG). The capital programme for 2016/17 is £205.7m and it is expected that £137.4m will be spent by the end of the financial year.

What is Cabinet being asked to decide?

2. The Cabinet is being asked to note:
 - (a) the forecast outturn position for 2016/17 for revenue and capital spending.
 - (b) the budget is being appropriately managed by Officers to try and remain within the resource limit agreed by the Council.
 - (c) the significant transfers (virements) in accordance with the Council's Financial Regulations.
 - (d) the mid-year report on the performance of the treasury management function.

Reason for recommendation

3. This paper presents a forecast for the 2016/17 revenue and capital budgets based on expenditure trends and information available at the end of September 2016.

What are the key issues to consider?

4. The forecast outturn for the year ending 31 March 2017 is £6.1m higher than the approved budget. This is 1.2% of the net budget. There is also a forecast

overspend of £3.4m against budgets funded from the Dedicated School Grant (DSG).

What are the resource and risk implications?

5. The major risk in managing the budget in 2016/17 is the requirement to achieve £34.4m of savings in the year whilst minimising the impact on front line services. Alongside this the cost and demand for purchased care placements for children and adults with significant care needs continue to put pressure on the Council's budget.

What are the timescales associated with this decision?

6. Budget management is an ongoing process.

Alternative options

7. Cabinet may decide to direct Officers to take alternative action to manage the Council's budget position in 2016/17 as a result of the information in this report.

Who will be affected by this decision?

8. Staff who are responsible for the financial management of the resources of the Council and citizens of Suffolk who receive the Council's services.

Revenue Budget

Introduction

9. The Council set a net expenditure budget of £492.4m for the year 2016/17. This is the budget after fees, charges, contributions and some specific grants have been deducted. This budget is therefore funded by the New Homes Bonus, Rural Services Delivery Grant, Public Health ring-fenced grant, Education Services Grant, Transitional Grant, Revenue Support Grant, Business Rates, Council Tax and the Social Care Precept. The budget included a target for planned savings of £34.4m and £1.6m from the contingency reserve to reach a balanced budget.
10. This is the second budget monitoring report for the year 2016/17. It covers expenditure for the period April to September and shows that the forecast outturn is £6.1m higher than the approved budget. The level of the forecast overspend demonstrates the impact of the financial challenges that the Council continues to face. **Table 1** overleaf shows the forecast for each directorate.

Table 1 2016/17 Revenue Budget Monitoring for the Period Ending 30th September 2016

Full Year Budget (from budget book)	Directorate	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Base Budget	Variance over (+) under (-) DSG Budget
£ million		£ million	£ million	£ million	£ million
217.1	Adult and Community Services (ACS)	215.8	214.7	-1.0	
104.1	Children and Young People (CYP)	109.3	117.3	4.7	3.4
55.7	Public Health and Protection (PH&P)	56.1	55.9	-0.2	
90.8	Resource Management (RM)	95.4	95.5	0.1	
28.9	Corporate Resources and Capital Financing	21.2	23.7	2.5	
496.7		497.8	507.2	6.1	3.4
-4.3	Agreed Use of (-) / Contribution to (+) Reserves	-5.4			
492.4	Total Net Expenditure Budget	492.4			

Adult and Community Services (ACS)

11. At the end of September, ACS is forecasting an underspend of £1.0m (0.5% of the £215.8m budget). This compares to an overspend of £0.5m forecast at quarter one. The improvement in the position has mainly occurred because of reductions in the forecast for Family Carers (£0.6m), Housing Related Support (£0.5m), and Management & Support (0.7m).
12. Housing Related Support is forecast to underspend by £0.8m as efficiencies through improved contracting arrangements continue to be achieved. This is in advance of a likely reduction in budget next year.
13. Assessment capacity in Social Work Services has needed to concentrate on reviewing existing customers where care needs or provision has changed, including as a result of provider failure in the care market, as well as assessing new customers requiring care services. This has resulted in limited capacity to assess new Deprivation of Liberty (DoL) cases and family carers. The former has a knock on impact in reducing the expected legal fees from DoLs cases and this lower legal cost is the main cause of the £0.6m forecast underspend shown within Management & Support. The latter is reflected in the £0.6m underspend being forecast for Family Carers.
14. Whilst the overall position for Care Purchasing, which is by far the largest budget in ACS, has not changed since the last quarter with a forecast overspend of £1m, there remains further pressures on the budget which may materialise in the latter part of the year in particular winter pressures.

Children & Young People (CYP)

15. At the end of September, CYP are forecasting an overspend of £8.1m. This is made up of an overspend on budgets funded from the Dedicated Schools Grant (DSG) of £3.4m, and an overspend of £4.7m on those funded from base budget.
16. The overspend projected against DSG budgets reflects the continuing pressure on those children who have Special Educational Needs (SEN). Specific areas of overspend include the double funding of support due to the need to re-place pupils who would otherwise have attended Kingsfield PRU, increasing numbers of children who are unable to attend school due to ill health or exclusion, increasing SEN needs of children in mainstream education, and an increase in pupils requiring places at special schools and Pupil Referral Units (PRUs).
17. The upward trend in demand and the complexity of this demand has been acknowledged by the Schools Forum, who have agreed a transfer of funds of £3m from schools to cover the financial challenges faced in the High Needs Block from 2017/18. In addition, the service has identified several initiatives to improve provision and manage demand in a cost effective way, including new provision for post 16 learners, securing a new school to support pupils with Social, Emotional and Mental Health (SEMH) needs, and working with schools to develop group provision and reductions in unit costs of placements.
18. The base budget overspend of £4.7m is a combination of an overspend of £5.9m in the Corporate Parenting service, an overspend of £0.8m on specialist Social Care teams, an overspend of £0.8m on revenue spend associated with infrastructure and potential capital projects, and underspends of £2.8m elsewhere in the directorate.
19. The overspend in Corporate Parenting reflects the full year cost of the accommodation costs for the increasing number and complexity of needs of Children in Care (CiC). In particular, the service is needing to provide appropriate support for more adolescent children coming into care, whose package costs are higher and need to be more longer term than the cohort of CiC that had been coming into care over the last few years. The directorate is working with other Local Authorities to improve the process around reunification and edge of care services in order to reduce either the length of time children need to spend in care, or to avoid them needing to be accommodated at all.
20. Specialist Social Care teams continue to rely on locum staff to support teams with high levels of vacancies and newly qualified social workers, and have not been able to reduce the number of locum staff as quickly as had been anticipated to date. This has led to a projected overspend of £0.8m, although it is hoped that this can be reduced by reviewing the mix of experienced workers in each team to see if the number of locum staff can be reduced.
21. CYP are forecasting an overspend of £0.8m against the budget for revenue costs of potential capital projects, and associated infrastructure costs that cannot be charged to capital schemes. This includes feasibility and legal costs in relation to new primary schools locations, temporary classroom accommodation rent and relocation and the costs of closed school sites.
22. The base budget underspends of £2.8m are due to the continuing level of vacancies in business support, early help teams and education and learning,

combined with some central directorate overhead budgets that have not been committed in this financial year, and so are being held against the pressure in Corporate Parenting and the additional staff saving applied to the CYP budget in year of £0.2m. Recruitment requests are scrutinised in order to ensure that these are kept to a minimum, but ensure that services are able to manage required workloads.

Public Health and Protection (PH&P)

23. At the end of September, Public Health are still expecting to contain expenditure within the budget for 2016/17. In 2016/17 the Council has identified some other services that can be funded from the ring-fenced public health grant, in particular Localities and Partnerships, and in doing so savings of £1m have been achieved. The service is now seeking to identify other services which can be funded from the grant to deliver a further £0.4m of contract savings which have been allocated to the Public Health budget although the funding of this will require use of ring fenced reserves in 2016/17.
24. The Fire Service is forecasting an underspend of £0.2m. This relates mainly to underspends on the budgets for training and ill health retirement and anticipated salary savings.

Resource Management (RM)

25. Resource Management are forecasting an overspend of £0.1m at the end of September. This compares to an overspend of £0.3m forecast at quarter one. This largely relates to overspends in Passenger Transport, Information and Communication Technology (ICT) and Scrutiny and Monitoring. This is partly offset by an underspend on the budgets for Highways and Waste and Infrastructure.
26. Passenger Transport are forecasting an overspend of £0.4m which is principally due to the delay in implementing the changes to the Park and Ride scheme.
27. The overspend on ICT is due to third party contracts and income pressures as a result of some schools and academies no longer buying services. The overspend on Scrutiny and Monitoring of £0.2m reflects budget pressures on the Coroners service.
28. Highways and Transport are forecasting an underspend of £0.1m. A balanced position is forecast for Highways Works on the basis that the Contractors Plan that is held with Kier remains on schedule for 2016/17. The underspend relates to increased income on Network Assurance, in particular charges for road closures, are more than anticipated.
29. An underspend on the Waste service of £0.7m largely relates to the Energy from Waste contract and additional income from other Local Authorities. However, a warm wet spring has led to an increase in tonnage of composted and green waste.

Corporate & Capital Financing

30. An overspend of £2.5m is currently forecast on the Corporate & Capital Financing budget. When the budget for 2016/17 was agreed the Council targeted £5m of contract savings which were to be achieved through the Council behaving more commercially. To date £2.5m has been allocated to directorates and the balance is held corporately. Considerable efforts continue to achieve the full savings figure within this financial year, although this is now acknowledged to be difficult. In addition the Council is seeking to find staff savings of £1.5m in 2016/17 and these have been allocated to directorates.
31. The Council holds a contingency budget of £2m. If this is not required during 2016/17 then this could be applied on a one off basis to fund the overall overspend before using reserves.
32. As a result of the continuing low interest rate environment and a change in the policy on Minimum Revenue Provision that was agreed by the Council in February it is currently forecast that £12.7m will be contributed to the capital financing reserve at the end of the year. This will be used to finance capital expenditure and reduce the need to borrow.

Table 2 – 2016/17 Adult & Community Services Revenue Budget Monitoring for period ending 30th September 2016

Full Year Budget (from budget book)	Directorate Service	Change in Planned Reserve Movements	Virements	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Budget	Explanation of Virements
£ million		£ million	£ million	£ million	£ million	£ million	
176.9	Care: Purchasing of Services	0.0	-4.6	172.3	173.4	1.1	Reallocation of budgets as part of budget rebase (-£3.2m). Allocation of contract savings (-£1.0m). Transfer to Commissioning and Specialist services for contract management (-0.2m)
28.5	Home First Re-ablement Service & Area Teams	0.0	-1.8	26.7	26.9	0.2	Reallocation of Care Act budgets (-£1.8m)
0.5	Community Equipment & Assistive Technology	0.0	-0.2	0.4	0.4	0.0	Movement of contract budget to Housing Related Support (-£0.2m)
3.1	Family Carers Support	0.0	0.0	3.1	2.6	-0.6	
1.0	Welfare Rights & Fairer Charging Teams	0.0	0.0	1.0	1.0	-0.1	
8.0	Housing Related Support	0.0	0.2	8.1	7.3	-0.8	Movement of contract budget from Community Equipment & Assistive Technology (£0.2m)
7.9	Commissioners & Specialist Services	0.0	1.0	8.9	8.7	-0.2	Funding for contracts team (£0.5m), Reallocation of staffing budgets as part of review of pay budgets (£0.1m), Transfer from Management and Support to fund safeguarding team (£0.4m)
8.3	Culture, Libraries, Sport & Community	0.0	0.1	8.4	8.4	0.0	Transfer from Management and support (£0.1m)
3.9	Management and Support	0.0	0.1	4.0	3.5	-0.6	Allocation for Deprivation of Liberty (£1.0m), Transfer to Commissioning and Specialist services for contract management (-£0.3m), Staff savings (-£0.2m), Transfer to Culture, Libraries, Sport and Community (-£0.1m), Centralisation of Mobile Phone budgets to IT (£0.1m), Transfer to Commissioners & Specialist Services to fund safeguarding team (-£0.4m)
-21.0	Care Act and Better Care Fund	0.0	3.8	-17.3	-17.3	0.0	Adjustment of budget in line with expectations of funding from Health (£3.8m)
217.1		0.0	-1.4	215.8	214.7	-1.0	
0.0	Planned use of (-) / Contribution to (+) Reserves			0.0	0.0		
217.1	Total Net Expenditure Budget			215.8	214.8		

Table 3 – 2016/17 Children & Young People Services Revenue Budget Monitoring for period ending 30th September 2016

Full Year Budget (from budget book)	Directorate Service	Change in Planned Reserve Movements	Virements	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Budget	Variance over (+) under (-) Grant Budgets	Variance over (+) under (-) Base Budget	Explanation of Planned Reserve Movements	Explanation of Virements
£ million		£ million	£ million	£ million	£ million	£ million	£ million	£ million		
9.3	Directorate Management/Overheads	0.0	-0.9	8.4	8.8	0.4	-0.2	0.6		Contract and staff savings
61.3	Early Help & Specialist Services	0.8	1.1	63.2	68.0	4.8	-0.2	5.0	Fostering and Adoption (£0.3m), Safeguarding (£0.1m), Belhaven crisis provision (£0.2m), CYP Transformation (£0.2m)	Grant increases (£1.2m), Staff savings (-£0.2m)
3.2	Commissioning	0.4	-0.2	3.3	3.3	-0.1	0.0	-0.1	Child & Adolescent Mental Health Services (£0.3m)	Building Care Capacity Officers transfer to Public Health (-£0.2m)
20.1	Home to School Transport	0.2	0.0	20.3	20.3	0.0	0.0	0.0	Funding for Special Educational Needs £0.2m	
90.0	Education & Learning	3.5	0.5	94.0	97.0	3.0	3.8	-0.8	Youth Guarantee/Apprenticeships in Skills (£3.1m), Special Educational Needs Disabilities reform (£0.4m)	PE & Sport/Music Grant reductions (-£0.5m), DSG adjustments agreed with Schools Forum (£1.2m)
242.7	Maintained Schools	1.6	-7.7	236.5	236.4	-0.1	-0.1	0.0	DSG underspend from 2014/15 agreed with Schools Forum	DSG academy conversion recoupment and reallocating of DSG budgets as agreed with Schools Forum
0.0	Schools Choice	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
-322.4	Grant Income	0.0	6.0	-316.5	-316.5	0.0	0.0	0.0		DSG recoupment adjustments (£6.6m), Unaccompanied Asylum Seeker Children forecast grant (-£1.2m), Other grant changes (£0.4m)
104.1		6.4	-1.3	109.3	117.3	8.0	3.4	4.7		
-4.7	Planned use of (-) / Contribution to (+) Reserves			-11.1	-11.1					
99.5	Total Net Expenditure Budget			98.2	106.2					

Table 4 – 2016/17 Public Health & Protection Revenue Budget Monitoring for period ending 30th September 2016

2016 - 2017 Revenue Budget Monitoring for the Period Ending 30th September 2016								
Full Year Budget	Directorate Service	Change in Planned Reserve Movements	Virements	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Budget	Explanation of Planned Reserve Movements	Explanation of Virements
£ million		£ million	£ million	£ million	£ million	£ million		
0.2	Director Of Public Health and Protection	0.0	0.0	0.2	0.2	0.0		
21.4	Fire Service	0.0	-0.1	21.4	21.2	-0.2		Contract savings (£0.1m)
0.3	Health and Safety	0.0	0.0	0.3	0.3	0.0		
28.9	Health Improvement and Health Protection	0.4	-0.3	29.0	29.0	0.0	Use of ringfenced reserve	Contract savings (£0.4m) and changes in respect of Localities and Partnerships budget structure with Public Health.
0.4	Joint Emergency Planning Unit	0.0	0.0	0.4	0.4	0.0		
1.1	Knowledge and Intelligence	0.0	-0.5	0.6	0.6	0.0		Changes in respect of Localities and Partnerships budget structure with Public Health.
1.2	Localities and Partnerships	0.0	0.9	2.1	2.1	0.0		Changes in respect of Localities and Partnerships budget structure with Public Health. Includes transfer from RM Business Development.
2.3	Trading Standards	0.0	0.0	2.2	2.2	0.0		
55.7		0.3	0.0	56.1	55.9	-0.2		
0.9	Planned use of (-) / Contribution to (+) Reserves			0.6	0.6			
56.6	Total Net Expenditure Budget			56.7	56.5			

Table 5 – 2016/17 Resource Management Revenue Budget Monitoring for period ending 30th September 2016

2016 - 2017 Revenue Budget Monitoring for the Period Ending 30th September 2016								
Full Year Budget (from budget book)	Directorate Service	Change in Planned Reserve Movements	Virements	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Budget	Explanation of planned reserve movements	Explanation of Virements
£ million		£ million	£ million	£ million	£ million	£ million		
2.4	Business Development	0.6	-0.6	2.3	2.3	-0.1	Raising the Bar (£0.6m)	Transfer of Staff to Public Health and Protection (-£0.6m)
0.3	Chief Executive & Support Team	0.0	0.0	0.3	0.4	0.0		
1.9	Communications & Customer Service	0.6	0.0	2.5	2.6	0.1	Digital Transformation (-£0.6m)	
7.6	Corporate Property	0.0	0.3	8.0	8.0	0.0		Carbon Reduction Commitment Budget Centralisation and Corporate Budget
2.2	Finance	0.0	0.0	2.3	2.1	-0.1		
21.0	Highways & Transport	0.7	-0.4	21.3	21.2	-0.1	On Street Parking (£0.4m), Highways Transformation (£0.3m)	Carbon Reduction Commitment Budget Centralisation (-£0.2m), Staffing to Strategic Development (-£0.2m)
2.4	Human Resources	0.0	-0.1	2.4	2.5	0.1		
11.3	Information & Communication Technology	0.2	0.2	11.6	11.9	0.3	Unified Communications (£0.2m)	Unified Communications (£0.2m)
12.4	Passenger Transport	0.1	-0.2	12.3	12.7	0.4	Community Transport (£0.1m)	Allocation of Contract Savings - Concessionary Fares (-£0.2m)
1.1	Procurement & Contract Management	0.0	0.0	1.1	1.0	0.0		
3.5	Scrutiny & Monitoring	0.1	0.0	3.6	3.8	0.2		
3.6	Strategic Development	2.2	0.1	6.0	5.9	0.0	River Crossings (£3.0m), On Street Parking Account (£-0.8m)	Staffing from Highways & Transport
21.0	Waste & infrastructure	2.0	-1.2	21.8	21.1	-0.8	Breakage and Due Diligence for Suez Deal (£2.2m), Suffolk Waste Partnership (-£0.2m)	Allocation of Contract Savings (-£0.3m), Capital Financing (-£0.8m)
90.8		6.5	-1.9	95.4	95.5	0.1		
-0.5	Planned use of (-) / Contribution to (+) Reserves			-7.0	-7.0			
90.3	Total Net Expenditure Budget			88.4	88.5			

Table 6 – 2016/17 Corporate Resources & Capital Financing Revenue Budget Monitoring for period ending 30th September 2016

2016 - 2017 Revenue Budget Monitoring for the Period Ending 30th September 2016								
Full Year Budget (from budget book)	Directorate Service	Change in Planned Reserve Movements	Virements	Current Full Year Budget	Forecast Outturn	Variance over (+) under (-) Budget	Explanation of Planned Reserve Movements	Explanation of Virements
£ million		£ million	£ million	£ million	£ million	£ million		
28.8	Capital Financing	-12.7	0.8	17.0	17.0	0.0	Contribution to capital financing reserve	Transfer from Waste for PFI
1.9	Premature Retirement Costs	0.0	0.0	1.9	1.9	0.0		
0.7	Flood Defence Committee Levies	0.0	0.0	0.7	0.7	0.0		
0.3	Eastern Inshore Fisheries and Conservation Authority (EIFCA)	0.0	0.0	0.3	0.3	0.0		
1.4	Councillors	0.0	0.0	1.4	1.4	0.0		
0.1	External Audit Fees	0.0	0.0	0.1	0.1	0.0		
0.8	Locality Budget	0.5	0.0	1.2	1.2	0.0	Previous year underspend brought forward	
-1.4	Vertas Dividend/Interest and corporate contract rebates	0.0	0.5	-0.9	-0.9	0.0		Carbon Reduction Commitment and Energy budget changes
2.9	Corporate Contingency	0.0	-0.9	2.0	2.0	0.0		Carbon Reduction Commitment and Energy budget changes
-6.5	Contract and Staff Savings to be allocated	0.0	4.0	-2.5	0.0	2.5		Allocation of Contract and Staff savings
28.9		-12.2	4.5	21.2	23.7	2.5		
-0.1	Planned use of (-) / Contribution to (+) Reserves			12.1	12.1			
28.8	Total Net Expenditure Budget			33.3	35.8			

Table 7 Cross Directorate Virements

ACS £ million	CYP £ million	PH&P £ million	RM £ million	Corporate £ million	
-0.1	-0.1		0.2		Unified Communications - Centralisation of Mobile Phone Budgets to IT
	-0.2	0.8	-0.6		Localities & Partnerships team move from RM and CYP to Public Health & Protection
-1.0	-0.4	-0.5	-0.5	2.4	Allocation of Contract Savings 2016-17
			0.2	-0.2	Carbon Reduction Commitment and Energy budget changes
			-0.8	0.8	Waste transfer to Capital Financing for PFI
-0.3	-0.6	-0.3	-0.3	1.5	Allocation of Staff Savings 2016-17
-1.4	-1.3	0.0	-1.9	4.5	

Table 8 Reserves

Adjusted Opening Balance of Reserves £ million	Reserve	Planned Contributions to (+) or from (-) reserves £ million	Use of Contingency Reserve to balance budget £ million	Capital Receipts & Capital Financing Forecast £ million	Carry Forward Over (-) or Underspending (+) £ million	Forecast Reserve Balance 31/3/17 £ million
	Service 'carry forward' reserves					
8.0	Adult & Community Services	0.0			1.0	9.0
10.7	Children & Young People (non schools)	-3.7			-4.7	2.3
1.8	Public Health & Protection	-0.1			0.2	1.9
6.0	Resource Management	-1.8			-0.1	4.1
0.7	Corporate Resources and Capital Financing	-0.6			0.0	0.1
27.2	Sub Total	-6.2	0.0	0.0	-3.6	17.4
	Earmarked reserves					
4.0	Adult & Community Services	0.0			0.0	4.0
9.1	Children & Young People (non schools)	-2.9			0.0	6.2
5.0	Public Health & Protection	-0.1			0.0	4.8
18.3	Resource Management	-2.2			0.0	16.1
25.8	Corporate Resources and Capital Financing	-2.9			0.0	22.9
62.2	Sub Total	-8.1	0.0	0.0	0.0	54.1
5.0	Public Health (Ring Fenced Grant)	-0.4			0.0	4.7
38.5	Contingency		-1.6		-2.5	34.3
11.0	County Fund	0.0			0.0	11.0
1.1	Trader: Schools Choice	0.0			0.0	1.1
	Renewals Reserves					
0.4	Adult & Community Services	0.0			0.0	0.5
0.0	Children & Young People (non schools)	0.0			0.0	0.0
1.8	Public Health & Protection	1.2			0.0	3.0
1.5	Resource Management	0.0			0.0	1.5
3.8	Sub Total	1.2	0.0	0.0	0.0	5.0
148.8	Sub Total - Non Schools	-13.5	-1.6	0.0	-6.1	127.6
25.8	Schools Balances	0.0			0.0	25.8
4.2	Dedicated Schools Grant Reserve	-1.6			-3.4	-0.7
30.0	Sub Total - Schools	-1.6	0.0	0.0	-3.4	25.1
42.4	Capital Reserves inc Financing	9.7		-7.0	0.0	45.1
221.2	TOTAL	-5.4	-1.6	-7.0	-9.4	197.8

Capital Programme

Introduction

33. The capital expenditure programme for 2016/17 agreed by the County Council in February 2016 was £99.3m. A total of £86.2m was brought forward from 2015/16 and additional funding of £20.2m has been received in the first two quarters resulting in a revised expenditure programme of £205.7m. A summary of the capital programme and its financing is shown in **Table 9** overleaf.

Table 9 Capital Budget Monitoring for period ending 30th September 2016

Original Expenditure Programme 2016/17		Revised Expenditure Programme 2016/17	Forecast Outturn	Variance Against Revised Programme
£ million		£ million	£ million	£ million
0.9	Adult & Community Services	11.1	8.5	2.6
52.8	Children and Young People	67.8	34.7	33.1
1.6	Schools	4.2	4.2	0.0
3.4	Public Health & Protection	10.1	3.4	6.7
28.5	Highways	64.9	62.5	2.4
1.0	Waste & Environment	21.8	7.9	13.9
1.0	Property	9.8	4.8	5.0
3.0	IT	4.6	4.6	0.0
7.1	Broadband	11.4	6.8	4.6
99.3		205.7	137.4	68.3
	<u>Financed by:</u>			
8.7	Ringfenced Government Grant	21.5	21.1	0.4
5.2	Ringfenced Contributions	8.3	1.7	6.6
38.8	Non-Ringfenced Government Grant	39.9	30.5	9.4
4.6	Capital Receipts	12.3	5.4	6.9
4.1	Revenue Budgets or Reserves	15.3	9.8	5.5
37.9	Borrowing	108.4	68.9	39.5
99.3		205.7	137.4	68.3

Adult and Community Services (ACS)

34. The revised ACS capital programme is £11.1m as the Disabled Facilities Grant of £4.7m has been received in this quarter. It is forecast that £8.5m will be spent this year.
35. The programme includes £4.9m for ACS IT transformation, which is the replacement of the Care First System and roll out of mobile technologies for practitioners. The contract for the new provider is expected to be awarded in February 2017 with the costs likely to be front loaded so it is forecast that

£3.0m will be spent in 2016/17 and the balance of £1.9m carried over to 2017/18.

36. The Hold Heritage Centre project is a partnership between the Council and the University of Suffolk. This is a three year project at a cost of £20.3m, supported by a £10.9m grant from the lottery, £5m from borrowing and the remaining from external sources. For 2016/17 £0.5m was allocated to the design and initial set up of the project and it is now expected that £0.4m will be spent this year.
37. Newmarket Library has spent £0.2m on improvements and a digital storage project and £0.1m on equipment for the Reablement of customers.
38. The programme includes £0.1m for housing projects. There has been some spend in 2016/17 to complete existing projects but the only new project identified was for Lakenheath and planning permission has been refused. Therefore the majority of this funding will be carried forward to next year. As it is expected that new monies for these schemes is likely to be limited in future the existing funding is deliberately not being used in one year but rather spread over multiple years.

Children and Young People (CYP)

39. At the end of quarter two the CYP capital programme for 2016/17 has been reduced by £1.0m to £67.8m. This is due to successful Free School bids for four Primary Schools which will be funded by the Department for Education (DfE). The Council will see a benefit of £4.6m due to no longer needing to borrow to fund these schools.
40. Current forecasts for quarter two show £34.7m of expenditure on the CYP programme by the end of the year. The remaining £33.1m will be carried forward to future years to complete projects.
41. The Basic Need schemes, to provide more school places, are on target to spend £10.9m this financial year, leaving £19.3m to be carried forward to future years. The delay in spending on the projects is down to number of factors, most notably the uncertainty surrounding potential Free School bids and a planning issue for Lakenheath and Red Lodge Primary Schools.
42. It is expected that £4.1m of the programme for Special Educational Needs provision will not be spent in year. The school for pupils with Autistic Spectrum Conditions in Ipswich is currently on hold until a possible Free School bid is approved. If this does not come to fruition then work on the site will start relatively quickly.
43. The relocation of an existing special school to Hardwick Middle School and the co-location of Early Years on the Sexton's Manor site is due to cost £2.7m by the end of the financial year. Completion of both projects is due by August 2017 and therefore the majority of the spend, £3.0m, will be incurred in 2017/18.

Public Health & Protection (PH&P)

44. The 2016/17 PH&P capital programme of £10.1m includes £5.7m brought forward from previous years.

45. The Fire Service capital programme is being used to support the creation of additional shared 'blue-light' stations, other property maintenance works and fleet and equipment renewals including ICT at a cost of £7.5m through to 2017/18. The 'blue-light' property work is being substantially funded by a £4.9m transformation grant from the Department for Communities and Local Government with new facilities expected to be delivered or work started in Felixstowe, Saxmundham, Newmarket, Beccles and Ipswich in 2016/17 and 2017/18.

Highways

46. The total programme budget for Highways in Quarter 2 is £64.9m, which included £25.8m carried forward from 2015/16 and £10.6m of additional funding received in the first two quarters of the year. The additions include bringing forward the 2017/18 allocation of £6.0m for additional highways investment. Furthermore the Cabinet agreed in May a £3.0m contribution to the development costs in 2016/17 of the Upper Orwell Crossings Ipswich and Lake Lothing third crossing in Lowestoft. At present the majority of the specific Highways projects are on target to spend their full allocated budget, however there are a number of uncertainties which could affect this outcome that should be resolved later in the year.
47. The majority of the forecast underspend relates to the Beccles relief road where a decision by the Secretary of State for Transport is still awaited following objections to the compulsory purchase and side roads orders. This accounts for £1.9m of the expected underspend and subject to a satisfactory and timely decision it is anticipated that construction will start in 2017.

Waste & Environment

48. The total budget for Waste and Environment is £21.8m of which £7.9m is expected to be spent in the current financial year.
49. Of the £14.7m waste budget, £0.8m will be spent in 2016/17 on starting the expansion of the Mildenhall and Stowmarket household waste and recycling centres. The remaining £13.9m will be carried forward into future years as plans for the improvement of existing household waste sites and new transfer stations are developed. The priority for the use of the funds will be the West Suffolk Operational Hub at Bury St Edmunds and the East Suffolk transfer station at the Ransomes Europark in Ipswich.
50. The programme includes £3.7m for the Green Deal Communities grant, £2.2m of which has been spent to the end of September to help Suffolk homeowners and private renting tenants with the cost of installing energy efficiency home improvements, with the primary focus on solid wall insulation. The remaining £1.5m will be spent by the end of the year. The programme also includes £1.0m for the Lowestoft flood project and £0.8m for the council's contribution to the Cornhill redevelopment project, both of which are expected to be spent.

Property

51. The total property budget for 2016/17 as at Quarter 1 was £10.6m. The property budget in quarter 2 has been reduced to £9.8m. The reduction is due

to the Riverside Road project coming to a close, the unused element of the budget has been removed as it is no longer required.

52. In quarter two the expected spend on the total programme is £4.8m, most of the underspend relates to the South Lowestoft industrial units (£3.1m) which will be spent in 2017/18.
53. The remaining underspend relates to the Greenest County project (£1.8m). This was originally allocated to support solar panels and bio mass boilers but due to changing technology, rising maintenance costs and changes in government incentives it has been decided that the project should be put temporarily on hold. Corporate property and Concertus are currently preparing a new business case to ensure the funding is being targeted to the right technologies that offer the best returns.

IT & Broadband

54. The capital programme for IT in 2016/17 at quarter two has reduced by £0.2m to £4.6m. The HR system project is now finished, the project has been delivered under budget therefore £0.2m has been removed from the programme.
55. It is expected the £4.6m on IT schemes including £0.9m for unified comms will all be spent. The majority of the programme supports IT improvements and upgrades. Suffolk IT are continuing to invest capital to support the delivery of the key capabilities of the strategy across Cloud, Mobility, Big Data and Social. There is key investment this year going into the network architecture and capacity across the county in order to be able to deliver services such as video and audio conferencing, using Skype for Business as part of the Unified Communication programme deployment. Cyber security threats continue to be a key area of risk requiring strategic investment into intelligent network security products to protect the council's network and information.
56. Additional investments in Business Intelligence and Predictive Analytics are being made in order to use Big Data and information to start to proactively manage down service demand through intelligent and proactive intervention. Capital funding is also being put into the council's new Customer Relationship Management capability to support its digital transformation objectives.
57. The Broadband budget is £11.4m, it is expected that £6.6m will be spent in this financial year. The underspend of £4.6m will be spent in 2017/18 as the programme continues to roll out to achieve the target of 98% coverage.

Capital Receipts

58. During the second quarter of 2016/17 sales of £3.2m have been completed, which brings the year to date total to £6.7m. There are currently sales with solicitors of £4.9m and Corporate Property are actively progressing sales estimated at £3.4m. There were £8.4m of capital receipts brought forward from 2015/16 and it is currently forecast that £5.4m will be needed to fund the current capital programme in 2016/17.

Treasury Management Practices and Prudential Indicators

59. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that the Council report on the performance of the treasury management function at least twice a year. This is the mid-year report, the end of year report will be included in the outturn report to cabinet in July 2017.
60. The Council's underlying need to borrow for capital purposes as measured by the Borrowing Capital Financing Requirement (Borrowing CFR) is projected to be £653.7m at the end of 2016/17. The Capital Financing required to meet PFI Liabilities is projected to be £63.2m having reduced due to the payment of a capital contribution in relation to the Energy from Waste Facility in October 2016. Usable reserves and working capital which is available to defray short term borrowing is predicted to be £273.2m. The Council has investments and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The treasury activity and associated monitoring and control of risk undertaken for the year to 30 September 2016 is explained below.
61. The Council's total external borrowing at 30 September 2016 was £341.5m. During the year Barclays converted all of its LOBO loans into fixed rate loans which meant that £45m of the Council's LOBO loans converted into fixed rate bank loans. The total external borrowing of £341.5m therefore consisted of the following:
- £121.5m Public Works Loan Board (PWLB)
 - £130m Lender's Option Borrower's Option (LOBO)
 - £45m fixed rate bank loans
 - £45m short term borrowing
- The average rate of interest on the Council's external borrowing at 30 September 2016 was 3.39% (3.85% at March 2015).
62. LOBO loans means the lender has the option to propose an increase in the interest rates at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £50.0m of LOBOs have options to the end of March 2017 and it is not anticipated that these options will be exercised by the lender.
63. Borrowing activity to 30 September 2016 consisted of repayment of PWLB loan amounts which had fallen due totalling £27m. No early debt repayment was undertaken due to the charge for repayment remaining relatively expensive for the loans in the Council's portfolio. As a result of current market conditions no further long term borrowing was taken in the period and short term borrowing was undertaken for cash flow purposes.

64. Investment activity undertaken to 30 September 2016 is shown in Table 10 below

Table 10 Investment Activity for 2016/17 to 30 September 2016

Table 4 : Investment Activity 2016/17	Maximum Investment per criteria	Balance at 01/04/2016	Investments Made	Investments Recalled/ Matured	Balance on 30/09/2016	Avg Rate
	£m	£m	£m	£m	£m	%
Money Market Funds:						
Aberdeen Global Liquidity Fund Plc	25.0	6.6	48.6	-46.1	9.1	0.49%
BlackRock Institutional Cash Series Plc	25.0	2.5	57.4	-55.6	4.3	0.44%
Deutsche Global Liquidity Series Plc	25.0	6.7	51.8	-58.5	0.01	0.47%
Federated Investors (UK) LLP	25.0	7.1	51.0	-49.9	8.2	0.48%
Goldman Sachs Asset Management International	25.0	0.04	0.00	0.00	0.04	0.42%
Insight Investment Funds Management Ltd	25.0	7.1	45.0	-44.8	7.3	0.47%
JP Morgan Liquidity Funds	25.0	5.4	53.9	-58.1	1.2	0.45%
Morgan Stanley Liquidity Funds (Luxembourg)	23.2	3.8	46.5	-49.1	1.1	0.43%
Cash Plus Money Market Funds:						
Santander 95 day call account	10.0	0.0	10.0	0.0	10.0	0.65%
Deposit Accounts:						
Lloyds Deposit Account	25.0	5.2			5.6	0.50%
Fixed Term Deposits:						
Fixed Term Deposits : Local Authorities	£20m per Authority	6.0	15.0	-21.0	0.0	0.55%
Fixed Term Deposits : Other Banking institutions UK (A Bank rating or above)	Secured £40m, Unsecured £10	15.0	30.0	-25.0	20.0	0.67%
Fixed Term Deposits : Other Banking institutions Non UK (AAA Country rating)	Secured £50m, Unsecured £15m	0.0	33.0	-3.0	30.0	0.56%
Total		65.4	442.1	-411.1	96.9	

65. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

66. The Council's approved prudential indicators for 2016/17 are compared with the forecast outturn position at 31 March 2017 in **Table 11** below.

Table 11 Approved Prudential Indicators compared to the forecast Outturn position

	2016-17 Approved	2016-17 Q2 Estimate
Capital expenditure		
Incremental impact of capital expenditure decisions on Band D Council Tax		
Net impact (after capital grant and use of capital receipts)	£0.69	£1.76
Ratio of financing costs to net revenue expenditure	6.48%	5.03%
	£m	£m
Capital financing requirement relating to Borrowing	£649.79	£653.69
Capital financing requirements relating to PFI Liabilities	£98.71	£63.18
Capital financing requirement at 31 March 2017	£748.50	£716.87
Borrowing		
Gross external borrowing at 31 March 2017	£430.00	£380.50
Other Long Term Liabilities at 31 March 2017	£99.00	£63.18
Total external debt at 31 March 2017	£529.00	£443.68
Operation Boundary	£600.00	£550.00
Authorised Limit	£748.00	£716.87
Treasury Management		
Upper limit on net borrowing/(investment) at fixed interest rates (compared with maximum net borrowing)	£600.00	£600.00
Upper limit on net borrowing/(investment) at variable interest rates (compared with maximum net borrowing)	£148.00	£116.87
Maturity Structure of fixed rate borrowing		
Under 12 months (inc. market loans)*	0-40%	43%
Excluding LOBOs where call option is under 12 months*		30%
12 months to 2 years	0-40%	6%
2 years to 5 years	0-50%	19%
A minimum of 25% will be held at a maturity of over 5 years (upper limits of holding shown below)		
5 years to 10 years	Up to 70%	14%
Over 10 years*	Up to 100%	18%
Including LOBOs where maturity is over 10 years*		31%
Principal Invested for longer than 364 days	0	0

* For monitoring purposes Treasury Management has assessed the risk of early repayment of LOBOs where the call option is within 12 months as minimal and therefore have recalculated the forecast prudential indicator to include LOBOs at their maturity date, which is over 10 years. The market conditions underlying this decision are kept under constant review.

67. A more detailed report on Treasury Management activities, policies and practices and prudential indicators will be presented to the Audit Committee on 29 November 2016.

Conclusion

68. The Council's finances continue to be managed effectively but it is clear that containing spending within the budget while maintaining services is becoming very challenging in the face of significant savings targets that are the necessary response to the Government's reductions to local government funding. Demand for and the cost of providing services for the most vulnerable in Suffolk continues to increase which may require the Council to use service reserves in the current financial year to balance Directorate budgets. This will add to the budget 'gymnastics' in 2017/18.

Sources of further information

Revenue Budget 2016/17 and Capital Programme 2016/19

<https://www.suffolk.gov.uk/council-and-democracy/budget-council-tax-and-finance/the-budget-for-suffolk/>

Scheme of Resource Management – Financial Procedures

<http://www.suffolk.gov.uk/NR/rdonlyres/54DC8E78-E6DE-4357-B784-42791FF7A8CC/0/04ConstitutionPART41b.pdf>

Council Payments over £250

<http://www.suffolk.gov.uk/council-and-democracy/council-data-and-transparency/council-expenditure-and-contracts/expenditure-exceeding-250/>