ANNEX TO ITEM 11

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	19 June 2017 20 July 2017
Title:	2016/17 – End of Year Financial Report
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

1.1. This report provides a summary of the 2016/17 final accounts. The draft statement of accounts was submitted for audit on the 1 June 2017 and will be 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 £33.8m lower than budgeted against an overall gross budget of approaching £1.9bn, a variance of less than 2%. This position reflects the County Council's continuing successful financial strategy of early achievement of savings in advance of need, which provides funding that 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 departments is summarised in the table below:

	Variance (Under) / Over Budget £'000
Adults' Health and Care	(12,293)
Children's Services - Non Schools	0
Economy, Transport and Environment	(7,282)
Policy and Resources	(14,248)
Total Departmental Expenditure	**(33,823)**

1.4. The position for Adults' Health and Care reflects effective management activity during the year to control spend in the face of demand and cost pressures. Departmental contingencies were used to offset pressures due to increasing complexity and demography and this along with the early delivery of around £15m of savings has contributed to the position at the end of the year.

1.5. The balanced position in Children's Services equally reflects significant management activity which has seen work to limit, as far as possible, pressures both 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, and other emerging pressures. This alongside the early delivery of savings, use of cost of change reserves and agreed corporate support has resulted in a break even position at the end of the year.

1.6. The final outturn position for Economy, Transport and Environment (ETE) shows savings against the budget of £7.3m due to early delivery of savings and savings primarily in Highways Traffic and Transport an element of which is a consequence of the relatively mild and dry winter which has resulted in savings against the winter maintenance budget of £1.7m.

1.7. Policy and Resources achieved a saving against the budget of £14.2m mainly due to ongoing efficiency savings and the early achievement of 2017/18 savings.

1.8. The net savings within Adults' Health and Care, 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 2019 (Tt2019) 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 again reinvest the savings associated with the winter maintenance budget in highways maintenance to provide additional one-off resources to supplement existing maintenance programmes. This additional investment was approved in February by Cabinet and County Council.

1.10. Savings on non-cash limited budgets total £24.6m. This is mainly as a result of changes to capital financing and treasury management activity and unused contingencies. Contingencies were set aside in recognition of the increased risk in the budget due to ongoing pressures within social care, although this has been partially offset by the need to provide for an additional doubtful debt provision in 2016/17.

1.11. This report recommends that £22m of these corporate savings be added to the Invest to Save Reserve and set aside to begin to make provision for the investment in enabling IT required to deliver Digital 2 and the Tt2019 Programme, which it is already recognised will be the most challenging programme to date.

1.12. In addition, it is proposed that:

- £1.23m is allocated to enable the County Council to continue to pursue funding through the free schools initiative and minimise calls on our capital resources.
- The balance of approaching £1.4m is transferred to the Grant Equalisation Reserve (GER) bringing the level in the reserve up to £40.8m, in preparation for the large draw required in 2018/19 and as agreed by the County as part of the MTFS in July 2016.

1.13. The County Council's ability to continue to provide resources to invest in specific priorities in line with the County Council's focus on service improvement and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.

1.14. In this context the report also takes advantage of the opportunity to seek several approvals in respect of the new Enterprise Zone (EZ) within the Enterprise M3 LEP boundaries and funding to provide resource to maximise the utilisation of the newly introduced Apprenticeship Levy.

1.15. The report contains a small section on reserves and balances highlighting that in line with the MTFS, the level of reserves has risen as we prepare for planned draws in the period to 2019/20 after which it is currently anticipated that they will begin to decline as our financial plans are delivered over the medium term.

1.16. 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 2017/18.

2. 2016/17 Revenue Outturn

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 2016/17:

	Variance (Under) / Over Budget £'000
Adults' Health and Care	(12,293)
Children's Services - Non Schools	0
Economy, Transport and Environment	(7,282)
Policy and Resources	(14,248)
Total Departmental Expenditure	**(33,823)**

2.2. The third quarter monitoring position indicated that most departments were expecting savings against their budgets resulting from the early delivery of savings during the year. However, the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are now being felt by all departments.

2.3. Strong financial management has therefore remained a key focus throughout the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that they deliver the savings programmes that have been approved.

2.4. This focus has ensured that at the end of the year the final position is in line with expectations and that departments have delivered savings early, which provides funding that can then be used to meet the cost of change and provide for invest to save or transformational projects in future years.

2.5. Key issues across each of the departments are highlighted in the paragraphs below and whilst pressures within social care services remain the highest risk and most volatile area of the County Council's budget the impact of successive savings programmes along with other service pressures means that all departments are facing financial pressures.

Adults' Health and Care

2.6. The most volatile area of service demand continues to be adults' social care. The Department has continued to experience growth pressures as a result of demographic increases in the number of people requiring care and rising costs due to the increased complexity of clients' needs.

2.7. In 2016/17 Adults' Health and Care have contained these pressures through the application of concerted management effort and this combined with the utilisation of available one-off resources and the early delivery of approaching £15m of savings means that the Department has been able to increase its cost of change reserve by £12.3m. This will help cash flow the agreed slipped delivery of savings in 2017/18 and enable some of the necessary investment in resources to deliver the next savings programme. Public Health ended the year with a balanced position, making a contribution to the ring-fenced reserve of £1.3m.

2.8. Although the final outturn position for Adults' Health and Care shows a net saving, underlying this there remains the substantial risk that on a long term basis we will see a rate of demand and cost that outstrips the available funding. The net saving must also be seen in the context of the exceptional decision to allow the Department to carry forward some £13m of its Transformation to t2017 (Tt2017) target into the new financial year which this will help to smooth in cash flow terms. Therefore it is imperative that the Department maintain into future years the momentum and tight financial controls that have enabled it to manage these costs within the bottom line in 2016/17.

Children's Services

2.9. Children's Services have seen the number of Children Looked After (CLA) grow during 2016/17. In addition, there are other increasing cost pressures, particularly in relation to care leavers, home to school transport and the cost of agency staff.

2.10. The Department have managed these pressures and the reported position is break even, reflecting the pro-active management of the services together with early delivery of savings, the use of the departmental reserves and agreed corporate support. However these pressures continue to be areas of some concern in Children's Services and will be closely monitored throughout the current year. . It is worth noting that Children's Services generates a modest but useful net income through support work with Government and other authorities.

2.11. Funding has been set aside within contingencies to provide for the projected growth in CLA numbers (and in turn the knock on impact for care leavers) in 2017/18 and beyond. Of the other service pressures, that relating to home to school transport will be the subject of specific further analysis to consider how best to respond to and plan financially for recent and anticipated future growth in demand due to increased pupil numbers, particularly relating to children with special education needs and growth in secondary school pupil numbers.

2.12. Similarly a review of social worker resources will be carried out to examine the potential links between case load levels, staff turnover and the knock on impacts on the number and cost of agency workers. This will also feed into the developing Transformation to 2019 (Tt2019) Programme which is looking at creating extra social work capacity to move children out of care and back into their family homes.

2.13. The outcome of both of these pieces of analysis will be included in the next update of the Medium Term Financial Strategy (MTFS) and these, along with funding for growth in children's social care and continued management focus on the other pressure areas, will ensure that the Department operates from a firm financial base as attention turns to the next transformation programme.

Economy, Transport and Environment

2.14. The final outturn position for Economy, Transport and Environment (ETE) shows a saving against the budget of £7.3m due to early delivery of 2017/18 savings totalling £5.8m together with £1.5m of net savings on planned departmental activity. Included within this result was a saving of £1.7m against the winter maintenance budget following another mild, dry winter.

2.15. At their meeting on 3 February 2017 Cabinet agreed to transfer any one off saving on the 2016/17 winter maintenance budget to the highways maintenance budget for 2017/18. The highways maintenance budget will therefore be increased by £1.7m to reinvest in highways maintenance in 2017/18, including extending the Parish Lengthsman scheme. This is in line with financial policy and incentivises good stewardship.

Policy and Resources

2.16. Policy and Resources achieved a saving against the budget of £14.3m mainly due to ongoing efficiency savings and the early achievement of 2017/18 savings.

2.17. The successful implementation of the Tt2017 Programme and the resulting early delivery of savings will be crucial as successive budget reductions mean there is less scope to generate savings across the services and high levels of investment and resources over a longer time period are required to generate further savings.

2.18. Detailed explanations for the outturn position for all departmental budgets are provided in Appendix 1.

2.19. The departmental savings will be set aside to meet the future cost of change in line with the current policy.

2.20. In addition within ETE the savings associated with the winter maintenance budget will be set aside to provide additional one-off resources to supplement existing maintenance programmes.

Schools Budget

2.21. 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.

2.22. 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 plans or Statements of SEN and other top-up funding arrangements. Pressures have also arisen for two, three and four year old free entitlement to early education as the actual number of children claiming has, along with the average number of hours per week take up, exceeded expectations. Funding for 30 hours free entitlement for working families from September 2017 has been included and incorporated into the 2017/18 budget.

2.23. In 2016/17 these pressures have been funded through the use of one-off reserves. However, Schools Forum has considered ways to address these pressures, which have been incorporated into the 2017/18 budget strategy, and are scheduled to review the budget at the July meeting in order to further mitigate these and future pressures.

2.24. In total for 2016/17 there was a net over spend of approaching £7.4m 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 as at 31 March 2017 is £6.6m, of which only £3.3m is uncommitted. Allocation of how this money will be used will be agreed by the Schools Forum later in the year.

Other Budgets

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

	Variance (Under) / Over Budget £m
Capital Financing / Interest on Balances	(12.7)
Waste Management	(2.0)
Contingencies	(14.4)
Increase in Doubtful Debt Provision	4.6
Other Net Variations	(0.1)
Total	**(24.6)**

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

Capital Financing and Interest on Balances (£12.7m saving against the budget)

2.27. These savings reflect lower capital financing costs, largely as a result of the amended Minimum Revenue Provision (MRP) policy which was approved by Cabinet in December 2015; including the subsequent pause in making MRP payments approved in February 2017. The final outturn position also reflects a continuing trend in previous years of a very prudent approach to capital financing costs and interest on balances and the continuing use of 'internal borrowing' to fund capital expenditure rather than taking out long term loans at this point.

2.28. In line with the County Council decision in February 2017, £500,000 has been transferred to the Investment Risk Reserve as further protection against the potential for an irrecoverable fall in the value of any investments.

Waste Management (£2.0m Saving)

2.29. 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 future years was reviewed in light of this.

2.30. The upward trend in 2016/17 has been less than forecast resulting in savings against the budget but continued close scrutiny of waste volumes will be required throughout 2017/18 to model and monitor the future costs.

Contingencies (£14.4m Saving)

2.31. The level of contingencies held as part of the 2016/17 budget reflected the well documented pressures and risk around demand and costs for the provision of social care services. Through strong management, applied to manage demand and supress the additional costs, savings against these contingency amounts were realised.

2.32. 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 (£4.6m Increase)

2.33. 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 (£0.1m Saving)

2.34. This relates to a number of smaller variances, including an over spend in the Coroner's Service, due to a higher than anticipated number of inquests which are difficult to predict. In addition, the County Council has incurred costs in 2016/17 of just over £0.1m following the crystallisation of liabilities in relation to Pension Fund exit payments due from two local organisations.

2.35. Whilst this is a relatively small amount in the context of the County Council's budget, it was felt important to highlight the fact that these crystallisation events are likely to increase. This position generally arises when the last remaining member of the Hampshire Local Government Pension Scheme (LGPS) leaves or retires from the community based organisation.

2.36. At this point all of the future pension liabilities in respect of that Admitted Body become immediately payable, usually as a single capital sum. In many cases, the community organisation does not have the funding to pay the one off capital sum and therefore the Pension Fund pursues any guarantors for the payment.

2.37. During 2016/17 a number of crystallisation events occurred, and for two of these the County Council itself had agreed to act as guarantor (along with the relevant District or Unitary Authority) and paid their share of the capital sum after confirming that the community body did not have the financial means to meet the liabilities themselves.

2.38. These items have been offset primarily by some variation in final business rate relief grant amounts received.

Allocation of Net Saving

2.39. The net saving totals £24.6m and it is recommended that this amount is allocated as set out in paragraphs 2.40 to 2.60 below.

<u>Investment in Enabling IT - Invest to Save</u>

2.40. The high level medium term forecast to 2019/20 requires the County Council to develop a transformation programme that must deliver £140m. Meeting this target on top of the £340m that has been delivered by 2017/18 clearly represents the greatest financial challenge yet, following as it does an extended period of austerity in the public sector.

2.41. The development of the proposed Tt2019 Programme is well underway but will inevitably involve complex transformational policy and service change across all departments at the same time over the coming years.

2.42. It was anticipated that a key theme running through the programme would be the exploitation of digital capability. This is with the twin aim of driving further efficiencies in the internal operations of the organisation, and supporting effective ways for citizens, where possible, to help themselves through the use of assistive technology. Our systems need to modernise in order to meet the changing demands of our customers and without further investment our services will not be digitally accessible.

2.43. The Digital 1 Programme implemented the platforms and tools required to support departments with their future transformation, but it is important to acknowledge that the authority's digital journey does not end there and that *Digital by Default* should be the continued strategic approach for Tt2019. Digital 2 will build upon and enhance those platforms and tools implemented as part of Digital 1.

2.44. It is now clear that the IT Programme to support the Tt2019 Programme and Digital 2 will inevitably be large and complex given that it seeks to exploit the platforms implemented as part of Digital 1 and the measures required to achieve the savings programme become more and more difficult and transformational in nature.

2.45. The scale of the programme is significant and inevitably there will be a bedding in period as the changes are implemented. Key to the success of the programme will be to ensure that we communicate effectively with customers before and during the changes and that adequate help and support is provided post go live.

2.46. Work is ongoing to confirm the scale and scope of the IT Programme and the costs but it is sensible at this stage to begin to make provision for what will be a sizeable investment over the next two years. Early assessment work on the scale of the programme and the resources that will be required to deliver it are outlined in the following table:

	Potential Range of Costs £m
Digital 2 and other enabling infrastructure	7.1
Corporate Wi-Fi upgrade	1.5
Enabling IT for the Tt2019 Programme	20 – 23
Improving productivity (including mobile working solutions)	4 – 6
Total	**32.6 – 37.6**

2.47. Whilst this represents a significant one-off investment it should be borne in mind that these enabling programmes underpin the delivery of £62m of recurring departmental savings and reflect the increasing difficulty and complexity of delivering successive transformation programmes.

2.48. Set against these high level costs, it is proposed in this report to allocate £22m of the net corporate savings outlined above to the programme, together with an uncommitted sum in the Invest to Save reserve of £6m. In addition, over a two year period it is estimated that internal IT project resource to the value of £4.5m can be committed to the programme bringing total available funding to £32.5m.

2.49. The programmes of work associated with Digital 2 and the Corporate Wi-Fi upgrade are already well developed and this report therefore recommends that £8.6m is approved by County Council to progress these projects.

2.50. Furthermore, in order to maintain the traction of the Tt2019 Programme and the work required to plan, scope, design and deliver the rest of the enabling projects an initial sum of £7.5m is requested to further progress the items identified above, subject to business cases being approved by the Director of Corporate Resources.

2.51. A more detailed programme and costings together with the identification of all the required funding will be submitted as part of the update of the MTFS in the autumn. What is clear however is that there are few local authorities in the country that could deliver and fund IT enablement of this scale and complexity and it is testament to Hampshire's planning, professional capacity and good financial management that change of this pace and scale is being considered.

New Schools Design and Delivery Strategy

2.52. All new schools are required to be established as Academies. The County Council has chosen to take an active role to ensure they are set up on a firm footing and that sponsors are selected to provide a high standard of education.

2.53. Free Schools are Academies which are directly revenue funded by Government and are not part of the County Council's portfolio of Community Schools. The capital cost is also funded directly by the Department for Education (DfE) and the schools are commonly delivered directly by them using project management consultants and contractors from their own national and regional frameworks.

2.54. To date, the County Council's strategy has been to ensure that it stays closely involved in the bidding and establishment of Free Schools. It has worked actively to encourage known sponsors (with a good track record) to come forward and work in partnership with them. It is also taking an active role in the design and delivery of the buildings on behalf of the DfE to ensure the best outcome for Hampshire children as well as the best and sustainable resources for our communities.

2.55. The Council has been successful in working in partnership with academy sponsors to gain approval from the DfE for a number of Free Schools. This is currently expected to contribute around £21m of funding over and above Developers' Contributions to the current programme of new schools.

2.56. However, it is recognised that the County Council's approach to new school design and delivery needs to change in line with the national approach and to better fit the funding envelopes that are available. The County Council also needs to take a view on its level of involvement in future delivery arrangements.

2.57. Full details of the revised strategy and proposed delivery arrangements are set out in Appendix 2 and to support this it is recommended that £1.23m is set aside to fund the cost in 2017/18 of the professional resources within Property Services required to take this forward. Indicative amounts for future years will be taken into account as part of the development of the MTFS and will be adjusted as the programme of works and timing of delivery becomes clear.

2.58. This revenue funding will provide the necessary planning and feasibility resources in Property Services to shape, oversee and deliver the future major programme of new schools. The scale of the investment in Hampshire schools that can be secured from both Government Grant and Developers' Contributions is good evidence of the need to continue to maintain capacity and skills in this area.

Balance of Savings

2.59. It is proposed to transfer the balance of the net savings of approaching £1.4m to the Grant Equalisation Reserve (GER) bringing the level in the reserve up to £40.8m, in preparation for the large draw required in 2018/19 and as agreed by the County Council in July 2016 as part of the MTFS.

2.60. 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 every two years with deficits in the intervening years being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2019/20.

3. New Investment

3.1. The County Council's ability to continue to provide resources to invest in specific priorities in line with the County Council's focus on service improvement and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.

3.2. In this context there are two specific opportunities that it is timely to address as follows.

Enterprise Zone

3.3. The Enterprise M3 LEP together with three District Council partners and support from Hampshire and Surrey County Councils successfully bid for an Enterprise Zone (EZ) during the last Government bidding round. The final sets of documentation to Government have been recently submitted and the EZ is now formally enacted.

3.4. Somewhat uniquely, the single EZ is split across three sites which are in the separate District Councils of Runnymede Borough Council (in Surrey) and Basingstoke and Deane and East Hants (in Hampshire).

3.5. There are a number of future revenue costs associated with running the EZ in terms of a Programme Director, Programme Manager, support staff and marketing activities. Previously these had been met from contributions from all eight partners (two County Councils, three District Councils, the LEP the Homes and Communities Agency and Crest Nicholson - who are a major land owner at one of the sites).

3.6. It is estimated that up to £250,000 per annum for the next two years will be required. To ensure the progression of this strategically important work with minimum delay and bureaucracy it is recommended that the County Council provides the revenue funding from general contingencies to cash flow fund this expenditure which will be repaid as the first call from future business rate growth on the three sites. This is another good example where the County

Council is able to support the LEPs given our size, scale and financial resilience.

Apprenticeship Levy

3.7. The Apprenticeship Levy, which amounts to 0.5% of an organisation's pay bill in excess of £3m, came into force on 6 April 2017 and while this imposes an additional cost burden, it does provide an opportunity to review the Council's workforce requirements and its approach to people development and succession planning.

3.8. In order to ensure that the County Council maximises drawdown from the Levy investment of £100,000 is recommended. This funding, which will provide resources to ensure that the County Council effectively manages the introduction and administration of the Apprenticeship Levy and crucially maximises the utilisation of the available funding can be met from general contingencies in the current year.

4. General Balances and Earmarked Reserves

4.1. The County Council's reserves strategy, which is set out in the MTFS, is now well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for transformation of services but also to give the time for the changes to be properly planned, developed and implemented.

4.2. We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of austerity, although it was always recognised that the eventual planned use of the reserves would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way that they were intended as part of the wider MTFS.

4.3. General Balances at the 31 March 2017 stand at £21.5m, 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.

4.4. In addition to the general balance, the County Council maintains earmarked reserves for specific purposes and to a large extent the majority of these are 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.

4.5. In overall terms the total value of earmarked reserves has increased 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 planned large draw in 2018/19.

4.6. The net impact of the changes in the revenue account during 2016/17 mean that the GER will stand at £40.8m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle. Provision is being made for a draw in 2018/19 in order to give the County Council the time and capacity to implement the Tt2019

Programme as we begin the next phase of transformation to take us to 2019/20, and for future years.

4.7. In addition, the level of reserves also reflects the sizeable contribution to Invest to Save Reserve as set out in paragraphs 2.40 to 2.51.

4.8. Other earmarked reserves will increase due to the timing of receipt of funds in advance of their planned use for an intended purpose, in particular in funding the capital programme. Schools balances, over which the County Council has no direct control, are expected to decrease.

4.9. Each year, the Chief Financial Officer (CFO) reviews the level of reserves and the purpose for which they are held. Following this review a number of small reserves which are no longer required have been closed and the balances transferred to the GER as set out below:

- PSA Reward Grant Reserve (£83,000).
- Minerals and Waste Development Reserve (£33,000).
- Second Homes Reserve (£45,000).

4.10. In addition, the Corporate Efficiency Reserve has been closed and remaining commitments will be met from the Invest to Save Reserve within which it has been subsumed. Both reserves were earmarked to provide funding to help transform services in order to make further revenue savings in the future and given the finite amount remaining in the Corporate Efficiency Reserve it was timely to rationalise these reserves.

5. Treasury Management and Prudential Indicators

5.1. 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 3. Under the Treasury Management Code of Practice, the end of year report has to be submitted to the County Council.

5.2. 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 3 summarises the relevant indicators for the 2016/17 outturn which are in accordance with the figures approved by the County Council.

6. Capital Spending and Financing 2016/17

6.1. From the 2016/17 capital programme, schemes to the value of £196.5m were committed during the year, leaving £100m to be carried forward to 2017/18, subject to Cabinet's approval.

6.2. During 2016/17 capital expenditure of £173.2m was incurred, which can all be financed within available resources. This includes prudential borrowing of £16.3m. There will also be a further repayment of prudential borrowing from capital receipts and other funding sources of £4m. Further details of the outturn position for capital are provided in Appendix 4.

7. Assurance Statement

7.1. The code of Practice on Local Authority Accounting in the UK requires the County Council to publish, together with its Statement of Accounts, 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.

7.2. The Chief Internal Auditor has concluded that:

> *"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."*

8. Pension Fund

8.1. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council's Statement of Accounts. The accounts for 2016/17 record that the value of the fund's assets increased to £6.3bn 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."*

9. Statutory Statement of Accounts

9.1. The statement of accounts must currently be submitted for external audit by 30 June each year. The purpose of this report is to outline the key issues arising from the outturn position for 2016/17.

9.1. The Accounts and Audit Regulations 2015 introduced changes to the statutory accounting and audit timescales which will have a significant impact on 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). Next year's statutory timetable will also require earlier reporting to Cabinet of the financial outturn position and performance report and will require the Audit Committee to review the audited accounts by the 31 July deadline for publication.

9.2. In preparation we are taking an incremental approach and for 2015/16, the deadline for CFO sign off of the accounts was brought forward by two weeks.

For 2016/17 this has been 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.

9.3. Achieving these challenging timescales has required concerted effort from across the organisation. The timetable was reviewed, following consultation with affected parties, and focused on what could be done either differently or earlier and what systems or processes could be changed to facilitate the achievement of the ultimate objective of a speedier accounting closure and production of the statement of accounts.

9.4. Meeting these earlier deadlines has been achieved through hard work across all departments in liaison with finance and our external auditors and the success this year in completing a trial run ensures we are well placed for 2017/18 when the changes come into effect.

10. Recommendations

RECOMMENDATIONS TO CABINET

10.1. That the outturn position set out in Section 2 be approved.

10.2. That the transfer of £22m to the Invest to Save Reserve be approved to make initial provision for the investment required in enabling IT to deliver the Transformation to 2019 Programme and Digital 2.

10.3. That £1.23m of the corporate savings is allocated to enable the County Council to continue to pursue funding through the free schools initiative and minimise calls on our capital resources.

10.4. That the transfer of the balance of net corporate savings of approaching £1.4m to the Grant Equalisation Reserve (GER) be approved.

10.5. That the following reserves are closed and the balances transferred to the GER:

- PSA Reward Grant Reserve (£83,000).
- Minerals and Waste Development Reserve (£33,000).
- Second Homes Reserve (£45,000).

10.6. That the Corporate Efficiency Reserve be closed and that remaining commitments be met from the Invest to Save Reserve within which it should be subsumed.

10.7. That funding of up to £250,000 per annum for two years from general contingencies to cash flow fund expenditure associated with the Enterprise Zone be approved, to be repaid from future business rate growth.

10.8. That a one-off addition to revenue of up to £100,000 which will provide capacity to maximise the use of the newly introduced Apprenticeship Levy to be met from general contingencies be approved.

10.9. That service capital programme cash limits for 2017/18 be increased to reflect the carry forward of capital programme schemes and shares of capital receipts, as set out in Appendix 4.

10.10. **It be a Cabinet recommendation to Council that:**

a) A sum of £8.6m is approved from the Invest to Save Reserve to progress the Digital 2 Programme, a Corporate Wi-Fi Upgrade and other enabling IT infrastructure.

b) An initial sum of £7.5m is approved from the Invest to Save Reserve to plan, scope, design and deliver other enabling IT projects to support the Transformation to 2019 Programme subject to business cases being approved by the Director of Corporate Resources.

c) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 3 be approved.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

a) A sum of £8.6m from the Invest to Save Reserve to progress the Digital 2 Programme, a Corporate Wi-Fi Upgrade and other enabling IT infrastructure.

b) An initial sum of £7.5m, from the Invest to Save Reserve to plan, scope, design and deliver other enabling IT projects to support the Transformation to 2019 Programme subject to business cases being approved by the Director of Corporate Resources.

c) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 3.

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
Revenue Budget and Precept 2017/18 and Capital Programme 2017/18 – 2019/20	Cabinet – 3 February 2017 County Council – 16 February 2017
Medium Term Financial Strategy to 2020	Cabinet – 20 June 2016 County Council – 21 July 2016

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 disproportionally 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?

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

Adult's Health and Care Department – Revenue Expenditure 2016/17

Major variations in cash limited expenditure – Saving of £12.3m (3.2%) against the adjusted cash limit.

Main variations

Service Area	**Variance (Under) / Over Budget**		**Reason for Variation**
	£'000	**%**	
Director	(3)	(0.2)	
Policy and Strategic Commissioning	(2,402)	(9.7)	Savings mainly relate to reduced spend on non care contracts, grants to voluntary organisations and staffing budgets due to difficulty in recruiting to vacant posts.
Integrated Services (East and West)	(824)	(0.6)	There were pressures on both nursing and residential budgets due to higher client numbers and above budgeted weekly costs however, these pressures have been offset by savins in direct payments and homecare budgets where client numbers are less than budgeted.
Head of Quality and Safeguarding	(421)	(12.1)	Savings relate to staffing budgets where there have been difficulties in recruiting to vacant posts. In addition there has been an increase in income, from ongoing activity, above the budgeted level in respect of the Client Affairs Team.
Integrated Delivery	(1,989)	(6.0)	The main area of pressure is within the Older Person's in-house homes due to the use of agency staff to cover vacant posts whilst permanent recruitment is undertaken. The County Council is required by the Care Quality Commission to have adequate staffing levels in order to retain its registration. This pressure has been offset by savings on other staffing budgets and reduced volumes being referred to the REACT contracts.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Integrated Commissioning	3,116	17.9	There are significant pressures on purchased nursing and residential due to higher than budgeted client numbers.
Head of Disabilities	1,001	0.9	There are significant pressures on direct payments due to an increase in client numbers. There are also pressures in Learning and Physical Disability in-house homes due to staffing where agency and casual staff are being employed in respect of increased service user support needs. These pressures were partially offset by savings in Residential and Homecare due to increased income and a reduction in client numbers within Residential care.
Contingencies	(10,771)	(179.9)	This mainly relates to the early achievement of Transformation to 2017 (Tt2017) savings of approaching £15m offset by the one-off costs to enable these savings to be achieved.
Total	**(12,293)**	**(3.2)**	

Children's Services Department – Revenue Expenditure 2016/17

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

Main variations

Service Area	**Variance (Under) / Over Budget** £'000	%	**Reason for Variation**
Schools Budget			
Growth Fund	(727)	(13.8)	Saving relates mainly to the Infant Class Fund (ICS) and temporary classrooms. Fewer schools have been eligible for ICS funding and there has been a reduction in the number of temporary classroom installations this year in comparison with previous years.
Two Year Old Free Entitlement	1,195	20.0	Variance primarily relates to the number of eligible two year olds take-up (82%) being higher than estimated (80%) along with an increase in the average hours taken (3.7%). There has also been a reduction in the Dedicated Schools Grant (DSG) funding due to the pervious allocation being based on a fixed period in time when numbers where lower
Three and Four Year Old Free Entitlement	991	2.0	Variance relates to an increase in the take up of three and four year old early year entitlement. The estimated take up was 65%, but the actual take up was 68% of the eligible population.
Independent and Non-maintained Special Schools	693	4.8	Higher than expected pupils numbers and related costs, with an increasing number of tribunals relating to children placed in out of county provision.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
High Needs Top-up Funding	5,234	14.5	Variance is the result of an increase in the number of requests for statutory assessments. The numbers of pupils with additional needs requiring an Education Health and Care plans has increased significantly in line with national trends in mainstream and special. The number of high needs learners in post-16 provision is also rising. There is also a significant pressure on the service for discretionary payments as a result of the additional requests.
Various Other (Net)	5	0.0	
Carry Forward of Dedicated Schools Grant	(7,391)		The Department for Education (DfE) allows any unspent DSG funds to be carried forward each year and ring-fenced for schools purposes. The total 2016/17 over spend of £7.4m has been met by DSG carry forward. The remaining balance is £6.6m. Of this, approaching £3.3m has been committed as agreed with Schools Forum and the remainder is currently unallocated.
Sub-Total Schools Budget	**0**	**0**	
Non-Schools Budget			
Home to School Transport	3,459	12.4	A pressure on the Home to School Transport budget as a result of increased demand for school age and post-16 SEN transport and transport for the Education & Inclusion Service.
Central Budgets	(6,649)	(100.0)	Early achievement of savings in relation to the Tt2017 Programme used to offset the department's other pressures.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Assessment & Care Management	1,713	8.4	Pressure of £2.5m resulting from the necessary use of social work agency staff including increased responsibilities relating to Unaccompanied Asylum Seeking children (UASC) which is currently partly funded. The pressure has been offset from savings on unqualified staff.
Children Looked After (CLA)	348	0.6	Total CLA numbers have increased by 10% (130) between March 2016 (1,309) and March 2017 (1,439), of which CLA placements with a cost have risen 7% (by 78 to 1,182). UASC have risen from 32 to 75. The rise in the number of UASC has contributed to the overall rise in children becoming looked after by Hampshire. If the numbers of new UASC (43) are removed from the CLA figure, then the actual percentage rise is 6.5%. The pressure mainly relates to the market resulting in out of county and higher cost placements.
Youth Justice	185	9.1	Lower income at Swanwick Lodge Secure Unit as a result of planned temporary bed closures and delays in recruitment that result in reducing income from other local authorities. This has been offset by a reduction in number of placements relating to direct remands.
Leaving Care Service	2,091	57.8	Pressure on the leaving care service as a result of increased numbers leading to an increase in supported lodgings and support activity. The pressure is being addressed as a separate work stream as part of the Transformation to 2019 (Tt2019) Programme.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Adoption Service	281	7.3	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. Additional pressures on this budget are in relation to adoption allowances increasing in numbers
Various Other (Net)	(1,428)	(1.8)	A range of smaller savings across the Department
Sub-Total Non-Schools Budget	**0**	**0.0**	
Total	**0**	**0.0**	

Economy, Transport & Environment Department – Revenue Expenditure 2016/17

Major variations in cash limited expenditure – Savings of £7.3m (6.1%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Highways, Traffic & Transport	(373)	(0.6)	The position reflects savings against the winter maintenance budget of £1.7m due to the relatively mild and dry weather, which Cabinet has agreed in principle to reinvest in highways maintenance in 2017/18 providing additional one-off resources to supplement existing planned maintenance programmes. This has been partly offset by other pressures including: • Major scheme development costs which had previously been expected to be funded from external contributions, however a late claw-back condition attached to the funding prevented this funding being applied in the 2016/17 financial year. • Pressures on the highways maintenance and HQ budgets including a small overspend on the operational budget including accelerating works not originally programmed for 2016/17 facilitated by the milder weather, and • Higher than anticipated local bus contract costs.
Economic Development	40	3.0	Position reflects lower than anticipated external fee income as a result of historic contractual issues meaning it was not possible to realise the expected benefits in full from these particular arrangements.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Waste, Planning and Environment	(867)	(1.8)	The savings are predominantly the result of early and higher than expected benefits from Tt2017 initiatives including higher levels of external income and fees, together with cost savings in waste disposal e.g. through diverting materials from landfill. In 2017/18 this funding will offset the anticipated 2017 savings from further changes to opening hours which were deferred for implementation to autumn 2017.
General Departmental	(280)	(10.3)	Various ongoing housekeeping savings across departmental non-pay budgets (e.g. printing and postage) as well as additional cross-cutting income.
Planned Early Delivery of Tt2017 Savings	(5,802)	(4.8)	Although budget provision was retained in the cash limit in full, the Department's budget plan for 2016/17 was built on the expectation of delivering planned early achievement of Tt2017 savings. The outturn position reflects achievement of that planned early delivery during the year, including • Staffing reductions through a voluntary redundancy programme in 2015 • Contract re-negotiation (e.g. highways maintenance, waste disposal) or re-procurement (e.g. Intelligent Transport Systems), and • Early implementation of service changes such as street lighting dimming.
Total	**(7,282)**	**(6.1)**	

Appendix 1

Policy and Resources – Revenue Expenditure 2016/17

Major variations in cash limited expenditure – Savings of £14.2m (11.9%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Corporate Services	(6,927)	(11.8)	Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure through joint working and generating income, for example for legal and other services. This has enabled the costs to support the Tt2017 Programme to be absorbed and also ensured early achievement of Tt2017 savings to contribute to the cost of change reserve to be used for future investment in further transformation work to support Tt2019.
Culture, Community and Business Services	(6,041)	(16.3)	Continued strong financial management ensured that the Department's outturn position benefited from the over achievement of 2015/16 savings, early achievement of Tt2017 savings and a planned under spend on the Printsmart contract (totalling £5.6m). In addition, reductions and delays in expenditure (mainly Libraries and Business Support) together with additional income (mainly Trading Standards, but also within Calshot and Outdoors Centres, Asbestos and Registration) contributed to the overall savings that will be added to the Department's Cost of Change reserve and used for transformation projects.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Non Departmental Policy & Resources	(1,280)	(5.4)	The variance largely reflects early achievement of Tt2017 savings across a number of budgets including corporate expenses and the external audit fee. There was also one-off income received and refunded costs relating to an historic asset disposal During 2016/17 the former capital budget for strategic land was transferred to this part of Policy and Resources. The net position reflects a remaining balance of £303,000 from the original £8m funding, which will be ring-fenced for future revenue spend on strategic land. In addition, there is a small saving on schools repairs and maintenance works, as a result of the lead in time to commit works of a more complex nature. This will be ring-fenced for future schools repairs and maintenance works. The majority of Non departmental P&R budgets are ring-fenced and any savings are carried forward to the following financial year for that purpose.
Total	**(14,248)**	**(11.9)**	

New Schools Design and Delivery Strategy

1. Introduction and Context

1.1 All new schools are required to be established as Academies. The County Council has chosen to take an active role to ensure they are set up on a firm footing and that sponsors are selected to provide a high standard of education.

1.2 The Council's Property Services has hitherto had a significant role to design and oversee the delivery of all new school buildings in the County.

1.3 The Department for Education (DfE) now requires that all new schools are constructed to a benchmark cost to maximise the number of places provided for the funding available nationally. This is in the context of reduced public spending and austerity.

1.4 The current estimated cost of new schools in Hampshire over the period 2017 to 2021 is £89m consisting of one Secondary, one All Through, one Special and five Primary schools. This is part of a £300m plus programme of investment in school buildings over the next four years – an unprecedented scale of construction activity and is based on a tried and tested design and delivery programme that has been in place in Hampshire for a number of decades.

1.5 Property Services is currently funded to undertake a complete design and project management service on the basis of 16.5% of the capital cost of each project. Importantly, this covers a range of work in the very early school planning stages which ensures that:

- Developers' Contributions continue to be maximised;
- Suitable sites for new schools are secured at no or minimal cost;
- Government Grant is obtained at the maximum level; and
- The infrastructure and setting of the school buildings are appropriate in line with the Council's place shaping ambitions.

1.6 This report proposes a revised method of quantifying fees for all new school projects that better reflects the changing national picture and future arrangements for delivery whilst at the same time maintaining the benefits of the current approach. It is also necessary to ensure the most efficient and effective use of professional resources, focusing capacity where it can maximise positive outcomes for the Council.

2. A New Approach to New Schools Delivery

2.1 Funding for new school buildings is available through a combination of Government Grant (Basic Need and Free Schools) and Developer Contributions. The County Council has an excellent track record of securing significant Developers' Contributions which have brought in over £178m in recent years into the Children's Services Capital Programme. It is proposed to aim to deliver all new schools within the envelope of available 'external' funding together with the potential of any 'connected' capital receipts, thereby avoiding calls on the County Council's own scarce resources.

2.2 In the context of ensuring that all new schools are designed to cost parameters in line with DfE benchmarks, a set of 'core' lower cost designs are being developed that will meet this requirement while still maintaining an appropriate level of quality and robust specification.

2.3 The arrangement for funding the Property Services design resources for new schools also needs to change to match the new delivery arrangements. It is proposed to:

- Reduce the core fee in building design and delivery from 16.5% to 12.5% in line with the DFE national benchmark.
- Fund the strategic planning and feasibility costs separately from County Council revenue resources to ensure that the objectives outlined in paragraph 1.5 are fully met.

2.4 New schools which are Academies (set up using the presumption route) will be designed and delivered directly by the County Council but will now use a cost and fee envelope to match the DfE's benchmark standards. These will continue to be procured using the County Council's successful Construction framework arrangements.

2.5 It is proposed to maximise opportunities for efficient design and delivery to common templates and specification, aggregating procurement and buying opportunities where possible.

3. Free Schools

3.1 Free Schools are Academies which are directly revenue funded by Government and not part of the County Council's portfolio of Community Schools. The capital cost is also funded directly by the DfE and the schools and are commonly delivered directly by them, using project management consultants and contractors from their own national and regional frameworks.

3.2 To date, the County Council's strategy has been to ensure that it stays closely involved in the bidding and establishment of Free Schools. It has worked actively to encourage known sponsors (with a good track record) to come forward and work in partnership with them. It is also taking an active role in the design and delivery of the buildings on behalf of the DfE to ensure the best outcome for Hampshire children as well as the best and sustainable resources for our communities.

3.3 The Council has been successful in working in partnership with academy sponsors to gain approval from the DfE for a number of Free Schools. This is currently expected to contribute around £21m of funding over and above Developers' Contributions to the current programme of new schools.

3.4 The Council's Property Services has recently established a working Partnership with the DfE to undertake "Local Delivery" of Free Schools and a number of other centrally funded school projects. This is testament to the capacity and skills, together with the track record of the County Council in the past. As a result of good performance to date, the DfE has commissioned the Council's Property Service to deliver a number of school projects on the Isle of Wight on their behalf (a programme of approximately £20m construction value). This helps retain skills and capacity as well as bringing in additional fees to Property Services making a positive contribution to overheads.

3.5 For the design and delivery of Free Schools, the County Council is required to follow the DfE process and governance. This includes the option of transferring design responsibility to the selected Contractor at an early stage in the process. The Contractor takes responsibility for the design, construction and financial risk following conclusion of a two stage tender process.

3.6 There are three potential options for the County Council's role in the management and delivery of Free Schools:

- **Option A** - Leave the process entirely to the DfE and take no active part.
- **Option B** - Undertake the feasibility design only and then hand over to the DfE.
- **Option C** - Retain an active role throughout the feasibility, design and construction of the school project.

3.7 Option A means that the Council has no control over what is constructed. It does have the benefit that all financial risk is borne by the DfE: however, given that the majority of new schools are a key component of housing development and the establishment of new communities, it would mean surrendering all control over the design, quality and construction.

3.8 The Council has to date invested significant time and effort in securing appropriate sites, developers' funding contributions and shaping the setting of the schools in their context. There is a high risk that surrendering all control would have a negative impact on hard-won achievements.

3.9 Options B and C retain elements of control for the Council with the latter proposing oversight of the process through to completion. Option B invests in the feasibility of the school design, but no more. This would go some way to controlling the process but would still bear the risk of giving the Contractor complete freedom in the construction phase without any oversight by the Council.

3.10 Given our track record and skills, it is recommended that Option C is pursued for the immediate programme of new schools referred to in Section 4 below. There is some financial risk for the Council in doing so but this has successfully been managed in the past. It is considered that the benefits of overseeing the outcomes and continuing to maintain the local delivery on behalf of the DfE outweigh the financial risk. It will also maximise the opportunities to secure Grant funding into Free Schools in Hampshire.

4. The Programme of New School Projects

4.1 There are currently seven new schools identified to be delivered in the next four years (2017 to 2021). These are:

- East Anton Primary, Andover (Free School)
- Boorley Green Primary (Free School)
- Horton Heath All Through School (Free School) - To be delivered as two projects for Primary and Secondary phase

- Basingstoke SEN School
- Chestnut Avenue Primary, Eastleigh (Academy)
- Cornerstones Primary, Whiteley (Church of England Aided School)
- Whiteley Secondary (Governance TBC)

4.2 There is also early strategic planning and feasibility work required for further new schools proposed in Hampshire at Welborne, Manydown, Bordon, Basingstoke and Fleet – all relating to areas of new housing development emerging in Local Plans.

5. Revenue Funding Requirement

5.1 In line with the proposed delivery and fee funding model, it is recommended that revenue funding is identified to provide the necessary planning and feasibility resources in Property Services to shape, oversee and deliver the future major programme of new schools. The scale of the investment in Hampshire schools that can be secured from both Government Grant and Developers' Contributions of £89m is good evidence of the need to continue to maintain capacity and skills in this area.

5.2 An exercise has been undertaken to identify the professional resources required over the next four financial years. There is certainty about the costs for 2017/18 but future years are indicative estimates at this stage. It is recommended that these amounts are taken into account as part of the development of the Medium Term Financial Strategy and adjusted as the programme of works and timing of delivery becomes clear.

5.3 The revenue costs identified below do not represent extra costs to the County Council, they would normally form part of Children's Services capital programme which has a significant deficit against resources over the longer term, which will be reduced as a consequence of the new design and delivery methods highlighted in this report.

5.4 Additional estimated revenue funding requirements for both strategic planning and feasibility costs are as follows:

Financial Year	£'000	
2017/18	1,230	
2018/19	880	Indicative
2019/20	600	Indicative
2020/21	220	Indicative

5.5 Funding for the first years costs has been earmarked within the outturn report and resources for future schemes will be added on an annual basis as the programme of new schools develops. Any unused funding will be carried forward to future years to help smooth fluctuations in the timing of the programme.

5.6 There is the potential that additional funding for professional resources could be secured from the DFE as the result of efficiencies provided to them through local delivery by the County Council in partnership. Officers will actively pursue this with a view to reducing the costs identified in this report. The Partnership is recently established and further senior officer engagement is planned to develop the ways of working and securing continuous improvement as the major programme is rolled out over the next four years.

Annual Treasury Outturn Report 2016/17

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 2016/17, 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 2016/17, 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 Annex A.

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 2016/17.

Economic Background

3.2. Politically, 2016/17 was an extraordinary 12 month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA.

3.3. UK inflation was subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year on year in April 2016 to 2.3% year on year in March 2017.

3.4. In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases.

3.5. Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016, and in February the unemployment rate dropped to 4.7%, its lowest level in 11 years.

Financial Markets

3.6. After recovering from an initial sharp drop in Quarter 2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March. Overnight money market rates have remained low since the Bank Rate was cut in August.

Credit Background

3.7. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

4. Local Context

4.1. At 31 March 2017 the County Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £755m, while usable reserves and working capital which are the underlying resources available for investment were £522m (principal invested plus gains on investments with a variable net asset value).

4.2. At 31 March 2017, the County Council had £333m of borrowing and £513m 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 increase in 2017/18 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 from reserves are used to finance capital expenditure.

5. Borrowing Strategy

5.1. At 31 March 2017 the County Council held £333m of loans, (a decrease of £13m on 31/03/2016) 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, and are likely to remain at least over the forthcoming two years, lower than long-term rates, 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 2016/17

	Balance on 01/04/2016 £m	Net New Borrowing £m	Balance on 31/03/2017 £m
CFR	755.7		755.4
Short Term Borrowing[1]	12.5	1.0	13.5
Long Term Borrowing	333.3	(13.6)	319.7
Total Borrowing	**345.8**	**(12.6)**	**333.2**
Other Long Term Liabilities	175.5	(4.5)	171.0
Total External Debt	**521.3**	**(17.1)**	**504.2**
Increase/ (Decrease) in Borrowing £m			(12.6)

5.5. During 2016/17 the County Council repaid £12.54m 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.

LOBOs

5.6. The County Council holds £60m of LOBO loans (down from £73m due to the conversion of Barclays LOBO loans, which is further explained in paragraph

[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.

5.7) 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 the year.

5.7. In June 2016 Barclays Bank informed the County Council of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £13m of the County Council's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

Debt Rescheduling

5.8. 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 combined effect of the EU Bank Recovery and Resolution Directive 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. Since 2014/15 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 2016/17 the Council's investment balances have ranged between £496m and £645m.

Table 2: Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £m	Balance on 31/03/2017 £m	Average Rate/Yield on 31/03/2017 %	Average Life on 31/03/2017 Years
Short term Investments				
- Banks and Building Societies:				
- Unsecured	55.7	35.7	0.56	0.08
- Secured	27.8	20.0	0.57	0.62
- Money Market Funds	66.1	61.7	0.26	0.00
- Local Authorities	92.5	116.8	0.68	0.39
- Corporate Bonds	10.0	1.3	0.37	0.19
	252.1	**235.5**	**0.54**	**0.26**
Long term Investments				
- Banks and Building Societies:				
- Secured	65.0	70.0	0.88	1.58
- Local Authorities	113.5	97.5	2.11	1.56
	178.5	**167.5**	**1.59**	**1.57**
Long term Investments – high yielding strategy				
- Local Authorities				
- Fixed deposits	20.0	20.0	3.96	16.97
- Fixed bonds	10.0	10.0	3.78	16.77
- Pooled Funds				
- Pooled property	35.0	45.0	3.85	n/a
- Pooled equity	-	20.0	3.04	n/a
- Pooled multi-asset	-	10.0	0.89	n/a
- Registered Provider	-	5.0	3.40	2.08
	65.0	**110.0**	**3.43**	**14.79**
Total Investments	**495.6**	**513.0**	**1.50**	**1.92**
Increase/ (Decrease) in Investments		17.4		

6.4. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.5. Over the year the County Council reduced its exposure to unsecured bank and building society investments by increasing its exposures to other local authorities. The County Council has also invested more of the allocation to the high yield strategy through further investing in pooled property funds, and new investments in pooled equity and multi-asset funds, as well as a new investment with a Registered Provider.

6.6. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m. 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. Of the £200m available £110m has been invested (an increase of £45m since 31 March 2016). However 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.

6.8. The investments in pooled property, equity and multi-asset 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 at least 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 for 2016/17.

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 investment 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 0.25% since August 2016 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.

6.14. The County Council's average cash balances were £564.5m during the year and interest earned for the year was £8.6m, giving a yield of 1.52%.

7. Compliance with Prudential Indicators

7.1. The County Council confirms compliance with its Prudential Indicators for 2016/17, which were set in February 2016 as part of the County Council's Treasury Management Strategy Statement.

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 2016/17	Maximum during 2016/17	Compliance with limits:
Upper limit on fixed interest rate investment exposure	£350m	£172m	Yes
Upper limit on variable interest rate investment exposure	£700m	£473m	Yes
Upper limit on fixed interest rate borrowing exposure	£780m	£442m	Yes
Upper limit on variable interest rate investment exposure	£780m	£120m	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%	4.0%
12 months and within 24 months	50%	0%	2.3%
24 months and within 5 years	50%	0%	9.1%
5 years and within 10 years	75%	0%	13.3%
10 years and within 20 years	75%	0%	50.9%
20 years and within 30 years	75%	0%	20.4%
30 years and above	100%	0%	0.0%

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

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£350m	£300m	£300m
Actual	£278m		

Prudential Indicators 2016/17

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	**2016/17 Approved £m**	**2016/17 Revised £m**	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Total Expenditure	**237**	**209**	**173**	**283**	**250**
Capital receipts	6	8	**4**	8	6
Grants and other income	195	102	**132**	209	187
Revenue contributions	21	69	**10**	18	33
Contributions from reserves	2	10	**15**	9	2
Total Financing	**224**	**189**	**161**	**244**	**228**
Prudential borrowing	22	25	**16**	49	34
Less repayments from capital receipts etc	(9)	(5)	**(4)**	(10)	(12)
Total Funding	**13**	**20**	**12**	**39**	**22**
Total Financing and Funding	**237**	**209**	**173**	**283**	**250**

Estimates of Capital Financing Requirement

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

CFR	31/03/2017 Approved £m	31/03/2017 Revised £m	31/03/2017 Actual £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m
General Fund	739	763	**755**	788	795

The CFR is forecast to rise by £32m over the next two 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	31/03/2017 Forecast £m	31/03/2017 Revised £m	31/03/2017 Actual £m	31/03/20.18 Estimate £m	31/03/2019 Estimate £m
Borrowing	330	330	**333**	316	309
PFI liabilities	168	172	**171**	166	159
Total Debt	**498**	**502**	**504**	**482**	**468**

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	2016/17 Approved £m	2016/17 Revised £m	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	610	660	**333**	690	700
Other long-term liabilities	170	180	**171**	170	160
Total Debt	**780**	**840**	**504**	**860**	**860**

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	**2016/17 Approved £m**	**2016/17 Revised £m**	**2016/17 Actual £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	640	720	**333**	750	770
Other long-term liabilities	210	220	**171**	210	200
Total Debt	**850**	**940**	**504**	**960**	**970**

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	**2016/17 Approved %**	**2016/17 Revised %**	**2016/17 Actual %**	**2017/18 Estimate %**	**2018/19 Estimate %**
General Fund	5.73	4.22	**4.07**	3.99	4.01

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 2016/17

1. Introduction

1.1 This Appendix reports that:

- Capital schemes costing £196.5m were started during 2016/17 from the approved capital programme for the year of £318.1m.
- This left £100m for named projects not started by 31 March 2017 which will be carried forward to 2016/17, subject to Cabinet's approval.
- Capital payments of £173.2m were incurred in 2016/17 and this can be financed within available resources.
- It is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £16.3m is used in 2016/17 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 £4.0m in 2016/17.
- £6.9m of resources will be drawn down from the capital reserve in 2016/17 for use in funding payments incurred in 2016/17.
- Capital receipts of £4.4m were achieved from the sale of assets in 2016/17.

2. Capital Programme for 2016/17

2.1 Table 1 below shows that 61.8% of the capital programme for 2016/17 of £196.5m was started in the year.

Table 1 - Capital Schemes Committed in 2016/17

	£'000	%
Approved value of the capital programme for 2016/17	318,125	100.0
Schemes committed in 2016/17	196,491	61.8
Balance of Cash Limit at 31 March 2017	**121,634**	**38.2**
Schemes for which approval to carry forward to 2017/18 is now requested	99,984	31.4
Schemes previously approved for carry forward	21,650	6.8
Total Cash Limit to be Carried Forward to 2017/18	**121,634**	**38.2**

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 2017

3.1 The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2017. The total value of such schemes is £100m. This excludes £20.6m of Children's Services and £1m of Policy and

Resources schemes for which approval to carry forward to 2017/18 has previously been given during 2016/17. These amounts are largely committed against named projects.

3.2 As Table 2 shows, the proportion of the 2016/17 programme committed in the year, at £196.5m, is higher than the level achieved in 2016/17 of £185.8. Good progress is being made given the significant size of the overall capital programme.

Table 2 – Percentage of Capital Programme Committed

	2015/16 £m	**2016/17 £m**
Value of projects		
- committed	185.8	196.5
- carried forward	66.9	121.6
Total Programme	**252.7**	**318.1**
Percentage committed	73.5%	61.2%

3.3 Individually, most of the schemes and provisions to be carried forward are relatively small amounts. The larger schemes include:

- Adults with Disability – Accommodation Strategy (£20.4m) – A capital grants programme has been approved and is progressing.
- Extra care housing transformation (£20.2m) – Projects are being considered.
- Improvements at Schools (£12.5m) – Future projects planned and contracts being let.
- Children's Services contingency provision carried forward to cover future projects and pressures on the capital programme (£17.1m).
- Structural maintenance of roads and bridges – Future projects planned which are linked to the outcome of funding bids (£9m).
- Investment in Hampshire projects – Projects are planned (£3m).

4. Capital Expenditure and Financing 2016/17

4.1 Total expenditure actually incurred in 2016/17, arising from the capital programme for 2016/17 and earlier years, was £173.2m. This is £145.3m or 45.6% lower than the revised estimate for 2016/17. 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 2016/17, as shown in Table 2, will have reduced the level of payments in the year.

4.2 An analysis of the expenditure of £173.2m 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 2016/17

	Adjusted Revised Estimate £'000	Actuals £'000	Variation £'000
Prudential borrowing			
- for capital schemes	24,894	16,280	(8,614)
- repayments of specific schemes	(4,737)	(4,042)	695
Government capital grants	67,276	85,815	18,539
Contributions from developers and outside agencies	34,381	46,565	12,184
Capital receipts	7,672	4,375	(3,297)
Revenue reserves	9,865	9,865	0
Revenue contributions			
- general corporate provision	7,404	7,498	94
Total Capital Resources	**146,755**	**166,356**	**19,601**
Transfers from / (to) capital reserve			
- planned use of capital reserve to fund payments	58,084	6,863	(51,221)
Total funding for payments in 2016/17	**204,839**	**173,219**	**(31,620)**

4.4 In addition to this spend, during 2016/17, the Enterprise M3 Local Enterprise Partnership (LEP) invested £25.2m in Capital projects within the M3 corridor. This spend is included in the annual accounts, as the Council is the Accountable Body for the LEP.

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 £16.3m is borrowed in 2016/17 for these schemes, in accordance with the approved criteria.

5.3 Prudential borrowing of £4m has been repaid in 2016/17 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 2016/17 outturn is summarised in Appendix 3. It shows that the County Council continues to be in full compliance with the requirements of the Code.

6. Capital receipts

6.1 Capital receipts from the sale of land and property in 2016/17 were £4.4m in total. This has been used to fund capital expenditure in the year.

6.2 Services' proposed shares of capital receipts in 2016/17 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 £2.9m of the £4.4m received in 2016/17. Cabinet has previously approved the addition of majority of this amount to services' capital programmes, leaving a total of £0.2m for which approval is now required for allocation to services, as set out in Annex 3.

Analysis of Capital programme 2016/17 and Requests by Services to Carry Forward Capital Schemes to 2017/18

	(1) Approved Value of Programme £'000	(2) Schemes Committed in 2015/16 £'000	(3) Schemes for Which Approval to Carry Forward is Requested £'000	(4) Schemes Already Approved for Carry Forward £'000	Total Cash Limit Carried Forward to 2016/17 (Columns 3+4) £'000
Adult Services	70,037	25,604	44,433		44,433
Children's Services	94,950	37,975	36,365	20,610	56,975
Economy, Transport & Environment	107,056	96,183	10,873		10,873
Policy & Resources	46,082	36,729	8,313	1,040	9,353
Total	**318,125**	**196,491**	**99,984**	**21,650**	**121,634**
	100.0%	61.8%	31.4%	6.8%	38.2%

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

Summary of Capital Expenditure in 2016/17

Analysis by service

	£'000	%
Adult Services	13,750	8.0
Children's Services	55,937	32.3
Economy, Transport & Environment	80,442	46.4
Policy and Resources	23,090	13.3
	173,219	**100.0**

Analysis by type of expenditure

	£'000	%
Land	3,744	2.2
Construction work	134,815	77.8
Fees and salaries	27,721	16.0
Furniture, equipment and vehicles	6,874	4.0
Capital Loan	65	0.0
	173,219	**100.0**

Analysis of Capital Receipts 2016/17

	Net Capital Receipts	Costs of Sales	Shares from in/out and Other Schemes		25% Share of Qualifying Receipts Now Due to Services
			Previously Added to Programme	Now Available to be Added to Programme	
	£'000	£'000	£'000	£'000	£'000
Adult Services	600		600		
Children's Services					
Economy, Transport & Environment	750				188
Policy & Resources	3,025	3	2,055	20	32
	4,375	**3**	**2,655**	**20**	**220**

Total now to be added to services' programmes	**240**