REVENUE BUDGET & CAPITAL PROGRAMME 2013/14

AS AT 31 MARCH 2014

Purpose of the Report

1. This report provides the final year-end position on the City Council's Revenue Budget and Capital Programme for 2013/14, subject to review by the external auditors. The first section covers Revenue Budget Outturn and the Capital Programme position is reported from paragraph 89.

Revenue Budget Outturn

Summary

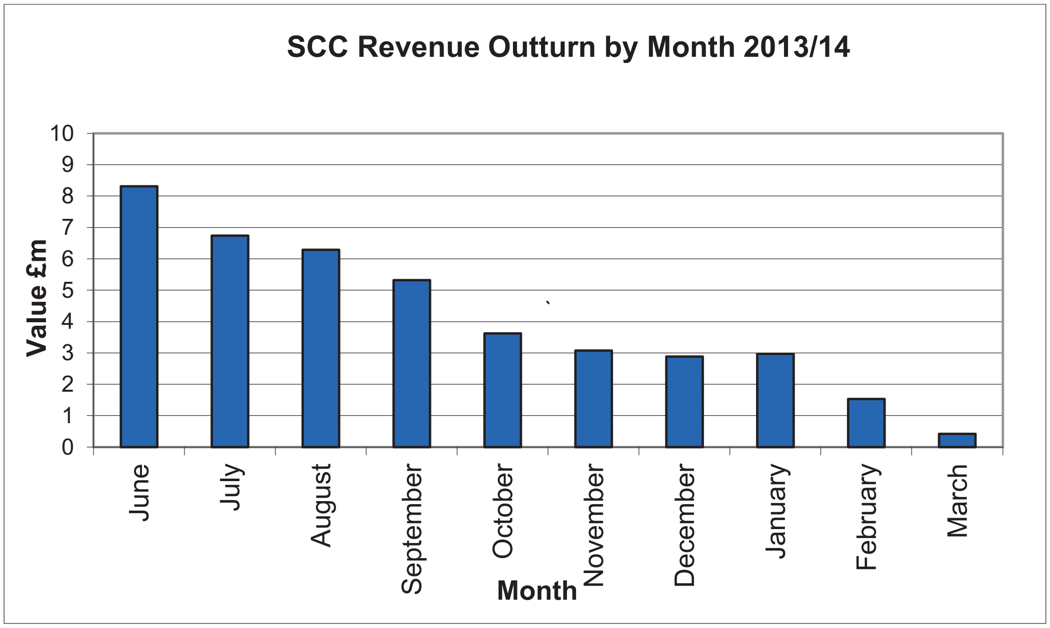
2. The budget monitoring position at month 11 indicated a forecast overspend of £1.5m, based on expenditure incurred to date and forecasted trends to the year end. The outturn position shows an overspend of £415k to the year end: i.e. an improvement of £1.1m since last month. This is summarised in the table below:

Portfolio	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
CYPF	84,732	84,879	(147)	⇔
PLACE	180,331	179,983	348	⇔
COMMUNITIES	182,280	172,602	9,678	⇔
POLICY, PERFORMANCE & COMMUNICATION	3,107	3,089	18	⇔
RESOURCES	66,833	67,586	(753)	⇧
CORPORATE	(516,867)	(508,139)	(8,728)	⇩
GRAND TOTAL	**415**	**-**	**415**	⇩

3. Based on a net revenue budget of £477.4m for 2013/14, the overspend of £415k is equivalent to a variance of less than 0.1% and therefore represents a broadly balanced position. In spite of substantial pressures on adult social care budgets, the outturn on corporate budgets has allowed the Council to achieve this position. However as the Council is required to balance the revenue account at the year end, the overspend has resulted in a contribution of £415k from non-earmarked reserves. This adjustment is shown in Appendix 2.

4. The forecast outturn has shown a reducing overspend from the £8.3m overspend reported in month 3 to £415k in month 12. This improvement reflects Portfolios' attempts to reduce spending but also the use of one-

off grants to offset the significant pressures within the Communities portfolio. The position month by month is shown in the following chart.



5. In terms of the month12 outturn position of a £415k overspend, the key reasons are:

- Place are reporting an overspend of £348k, mainly due to risks associated with contract negotiations to deliver the waste management savings (£671k), additional costs within commercial estate of £234k for professional services on key strategic property projects, a reduction in anticipated markets income of £454k caused mainly by low rental levels at the old Castle Market and a potential deficit arising from difficult trading conditions within Sheffield International Venues of £500k. These overspends are partly offset by reductions in forecast spend on the contract and street lighting costs within the Highways Department of £962k and savings on Local Growth Funded Projects of £509k.
- Communities are reporting an overspend of £9.7m, due predominately to a £8.1m overspend in Care and Support relating to Learning Disability Services and the purchase of Older People's care and a £3.1m overspend on Mental Health purchasing budgets.
- Resources are reporting a reduction in spending of £753k, due to £1.3m savings on the housing benefits subsidy adjustments, £1m of insurance fund savings, £292k reduction in spending within the Finance Service as a result of early staff savings for the 2014/15

budget and £312k of increased income generated within the schools minibus service. These savings are partly offset by reduced income from project recharges of £318k and a £650k provision for EU grant clawback within Business Information Solutions, £271k of unfunded E-Business project costs and a £151k overspend within HR on employee costs.

- Corporate budgets are reporting a reduction in spending of £8.7m, due predominantly to savings against the redundancy budget of £1.3m, the receipt of additional grant income totalling £5.8m and £1.2m saving resulting from a reduced revenue requirement to support Digital Region Loan repayment.

6. The reasons for the movement from month11 are:

- Resources are reporting an adverse movement of £205k since month 11, due to an initial payment of £188k in relation to the first claim arising from the litigation against all Local Authorities to establish the legitimacy of charging fees for property searches since January 2005, and also due to a £600k year-end provision taken to cover further potential Local Land charges claims. These overspends are partly offset by £271k of reductions in spending resulting from year-end housekeeping and subsidy cleansing routines in Housing Benefits.
- Corporate budgets are showing an improvement of £1.2m since month 11, due predominantly to the aforementioned reduction in costs associated with Digital Region.

7. In terms of the outturn position of a £415k overspend, the key reasons are summarised in the “Individual Portfolio Positions” section below.

Individual Portfolio Positions

Children Young People and Families (CYPF)

Summary

8. As at month 12 the Portfolio is reporting a full year outturn of a reduction in spend of £147k which is a slight improvement of £67k from the month 11 position and is shown in the table below. DSG is reporting a full year outturn of a reduction in spend of £2.7m which is an improvement of £2.3m from the month 11 position. The key reasons for the outturn position are:

- **Business Strategy:** £290k overspend, due to a PFI overspend of £401k against premises, an overspend in Children’s Commissioning

Unit of £283k due to removal of reserves, and an overspend of £134k in Children's Public Health due to late agreement on contract negotiation, offset by increased income of £413k on the Education Services Grant (ESG) and £135k reduction in spending due to staffing vacancies.

- **Children and Families:** £140k reduction in spend, which includes £472k overspend on Placements, £333k overspend in legal fees, £293k overspend on residential homes, and £111k overspend in Fostering, offset by £574k forecast reduction in spend on Early Years and £135k reduction in spend on Prevention and Early Intervention.
- **Inclusion and Learning Services:** £96k reduction in spend, due to £333k release of Contingencies and £131k Inclusion vacancies, offset by £267k overspend on faith travel passes, £227k overspend resulting from loss of the Banded Funding grant and £210k overspend due to additional costs in Out of City Placements.
- **Lifelong Learning, Skills & Communities:** £201k reduction in spend, due to £213k reduction in spending on Post-16 High Needs, £117k reduction in spending resulting from reduced activity on Not on School Roll, and £110k reduction in spending on Sheffield Futures, offset by £218k overspend on Training Units due to reduced flexibility on grant funding.

Financials (Non – DSG activity)

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
BUSINESS STRATEGY	5,825	5,535	290	⇧
CHILDREN & FAMILIES	62,731	62,871	(140)	⬄
INCLUSION & LEARNING SERVICES	5,391	5,487	(96)	⇩
LIFELONG LEARN, SKILL & COMMUN	10,785	10,986	(201)	⇩
GRAND TOTAL	**84,732**	**84,879**	**(147)**	⬄

Commentary

9. The following commentary concentrates on the changes from the previous month.

Non DSG Budgets

Business Strategy

10. As at month 12, Business Strategy are reporting an overspend of £290k, an adverse movement of £438k from the month 11 position. This is mainly due to additional overspend on PFI due to unforeseen costs, and £355k overspend on the rates account, offset by reduced expenditure in VER costs, additional income from schools for trade union duties and a reduced call in the primary deficit contingency.

Inclusion and Learning Services

11. As at month 12, Inclusion and Learning Services are reporting a reduction in spend of £96k, an improvement of £282k since the month 11 position. This is due to £144k of increased income and savings against staffing costs in Access & Pupil Services, and the release of £148k of contingency funding in Inclusion & Targeted Services.

Lifelong Learning, Skills & Communities

12. As at month 12, Lifelong Learning, Skills & Communities are reporting a reduction in spend of £201k, an improvement of £191k since the month 11 position. This is predominantly due to released DSG funds in Family & Community Learning.

DSG Budgets

13. As at month 12, DSG is reporting a reduction in spend of £143k, comparable with the position reported at month 11. The change in position is minor in terms of the overall grant and is due to small adjustments to individual budgets.

Place

Summary

14. As at month 12 the Portfolio is reporting a full year outturn of an £348k overspend, a slight improvement of £57k from the month 11 position. The key reasons for the outturn position are:

   - **Business Strategy & Regulation:** £444k overspend due to risks associated with contract negotiations with the Contractor on the new service to deliver the full £2.1m waste management savings in the 2013/14 Budget.
   - **Capital & Major Projects:** £666k overspend largely arising from cost and income pressures within the markets service for £454k and additional costs within commercial estate for professional services for £234k. During the year, the service has undertaken work on key

property projects which are considered essential to the continued strategic development of the city as a major commercial and leisure destination. By its nature this work is unplanned and reactive to opportunities and there is no general funding available. Without compensating prioritisation of spend this will inevitably lead to the overspend as reported in the Month 12 results.

- **Culture & Environment:** £413k overspend due to the inclusion of a £500k provision for a potential deficit arising from difficult trading conditions within Sheffield International Venues (SIV).
- **Regeneration & Development Services:** £1.3m reduction in spend on contract and street lighting costs within the Highways Department of £962k and £509k on Local Growth Funded Projects across the Service.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
BUSINESS STRATEGY & REGULATION	29,768	29,324	444	⇩
CAPITAL & MAJOR PROJECTS	1,717	1,051	666	⇧
CREATIVE SHEFFIELD	3,368	3,373	(5)	⇔
CULTURE & ENVIRONMENT	55,018	54,605	413	⇔
MARKETING SHEFFIELD	1,000	915	85	⇔
PLACE PUBLIC HEALTH	-	0	0	⇔
REGENERATION & DEVELOPMENT SER	89,460	90,714	(1,254)	⇩
GRAND TOTAL	**180,331**	**179,983**	**348**	⇔

Commentary

15. The following commentary concentrates on the most significant changes from the previous month.

Business Strategy & Regulation

16. As at month 12, Business Strategy & Regulation are reporting an overspend of 444k, an improvement of £173k since the month 11 position. This has arisen from reductions in spending across a number of activities.

Capital & Major Projects

17. As at month 12, Capital & Major Projects are reporting an overspend of £666k, an adverse movement of £197k since the month 11 position. This is due to the net impact of a review of provisions required across the service.

Regeneration & Development Services

18. Regeneration & Development Services are reporting a reduction in spend of £1.3m, an improvement of £171k since the month 11 position due to reductions in spend and additional income across a number of activities.

Communities

Summary

19. As at month 12, the Portfolio is reporting a full year outturn of £9.7 million overspend, which is unchanged from the position at month 11. The key reasons for the forecast outturn position are:

    - **Business Strategy:** £563k reduction in spend. Executive and Portfolio-Wide Services are reporting a £199k reduction in spend due to reduction in pay costs and costs of the Legal SLA but also due to some restrictions on non-pay expenditure. Improvement and Development Services are reporting a £99k reduction in spend due to holding of staff vacancies. Quality and Safeguarding are reporting a reduction in spend of £265k mainly due to reduced costs of the Moorfoot Learning Centre as well as a general reduction in non-pay expenditure.
    - **Care and Support:** £8.1m overspend. This overspend is across Older People's / Physical Disabilities (together, known as "Adults") / Learning Disabilities (LD) care purchasing budgets, and is due to the full year effect of 2012/13 activity, and continued growth in 2013/14 offset by action and interventions implemented to date.
    - **Commissioning:** £2.2m overspend due to an overspend of £3.1m in Mental Health (MH) Commissioning Service, mainly as a result of an overspend in MH Purchasing Budgets due to an increase in the number of people coming to us for care provision (predominantly using Self Directed Support Personal Budgets). Housing Commissioning is reporting a reduction in spend of £617k mainly on the Housing Related Support contracts (formerly Supporting People). Social Care Commissioning is reporting a reduction in spending of £276k as a result of termination of third party contracts, maintaining staff vacancies and restrictions on non-pay spend.

20. There are a range of actions being taken to reduce the forecast over spends in Communities. These include:

    - Tight control over all spending.

- Holding staff vacancies open where they are not absolutely necessary to deliver safe and effective services.
- Providing direct support to help people maintain and regain their independence.
- Making sure that we have an up-to-date understanding of people's eligible needs, and that these needs are met in the most cost effective way.
- Making sure that costs are not transferred to the Council as a result of decisions taken by other organisations.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
BUSINESS STRATEGY	11,394	11,957	(563)	⇩
CARE AND SUPPORT	125,187	117,084	8,103	⇧
COMMISSIONING	35,089	32,872	2,216	⇔
COMMUNITY SERVICES	10,610	10,688	(78)	⇔
GRAND TOTAL	**182,280**	**172,602**	**9,678**	⇔

Commentary

21. The following commentary concentrates on the most significant changes from the previous month.

Business Strategy

22. The service is reporting a £563k reduction in spend, an improvement of £149k from the month 11 position, which is mainly due to reduced Insurance and Central Mailing Contract recharges, review of expenditure in the Quality Team and Partnership contributions to the Council's Mental Capacity Act (MCA) work which were previously considered to be at risk but which have now been received.

Care and Support

23. The service is reporting an £8.1m overspend, an adverse movement of £188k from last month due to a detailed review of health income and costs incurred in liaison with the Clinical Commissioning Group (CCG).

Resources

Summary

24. As at month 12 the Portfolio is reporting a full year outturn of a reduction in spending of £753k, an improvement of £205k since month 11. The key reasons for the outturn position are:

- **Business Information Solutions:** £1.1m overspend due in the main to reduced income from project recharges of £318k and £650k of EU grant claw back.
- **Commercial Services:** £241k overspend due to E-Business project costs of £271k offset by vacancy management savings and surplus cashable savings.
- **Human Resources:** £151k overspend on employee costs due to a delayed Management of Employee Reductions (MER) process.
- **Legal Services:** £136k overspend due to a year-end provision taken to cover Local Land charges claims.

Offset by:

- **Housing Benefit:** £1.3m reduction in spend due to savings on the housing benefits subsidy adjustments.
- **Central Costs:** £499k reduction in spend owing to a transfer of £1m from the Insurance Fund.
- **Transport & Facilities Management:** £312k reduction in spend resulting mainly from an increase in income from the school minibus service.
- **Finance:** £292k reduction in spend due to vacancy management.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
BUSINESS INFORMATION SOLUTIONS	1,903	799	1,104	⇔
COMMERCIAL SERVICES	904	663	241	⇔
COMMERCIAL SERVICES (SAVINGS)	(820)	(820)	0	⇔
CUSTOMER FIRST	1,778	1,778	0	⇔
CUSTOMER SERVICES	2,715	2,729	(14)	⇔
FINANCE	1,887	2,179	(292)	⇔
HUMAN RESOURCES	1,782	1,631	151	⇔
LEGAL SERVICES	5,418	5,282	136	⇧
RESOURCES MANAGEMENT & PLANNING	1,219	1,219	0	⇔
TRANSPORT AND FACILITIES MGT	32,172	32,484	(312)	⇩
TOTAL	48,959	47,944	1,015	⇔
CENTRAL COSTS	18,141	18,640	(499)	⇧
HOUSING BENEFIT	(268)	1,002	(1,270)	⇩
GRAND TOTAL	**66,833**	**67,586**	**(753)**	⇧

Commentary

25. The following commentary concentrates on the most significant changes from the previous month.

Legal Services

26. The service is reporting an £136k overspend, an adverse movement of £166k from the previous month. The adverse movement is due to an initial payment of £188k in relation to the first claim arising from the litigation against all Local Authorities to establish the legitimacy of charging fees for property searches since January 2005.

Transport & Facilities Management

27. The service is reporting a £312k reduction in spend, an improvement of £102k from the previous month. The improvement is due to increased income generated within the schools minibus service.

Central Costs

28. The service is reporting a £499k reduction in spend, an adverse movement of £564k from the previous month. This is due to a £600k year-end provision taken to cover further potential Local Land charges claims.

Housing Benefit

29. The service is reporting a £1.3m reduction in spend, an improvement of £270k from the previous month, resulting from year-end housekeeping and subsidy cleansing routines.

Policy, Performance and Communications

Summary

30. As at month 12 the Portfolio is reporting a full year outturn of an £18k overspend, an adverse movement of £43k from the month 11 position. The key reasons for the outturn position are :

- £102k overspend in Electoral Registration due to the costs of canvas staff and IT support costs, offset by minor reductions in spending due to vacancy management, reduction in supplies and services and training spend.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 11
ACCOUNTABLE BODY ORGANISATIONS	39	39	0	⇔
POLICY, PERFORMANCE & COMMUNICATION	3,203	3,185	18	⇔
PUBLIC HEALTH	(135)	(135)	0	⇔
GRAND TOTAL	**3,107**	**3,089**	**18**	⇔

Corporate items

Summary

31. The month 12 position for Corporate budgets is a £8.7m reduction in spending which is an improvement of £1.2m from the month 11 position. The table below shows the items which are classified as Corporate and which include:

- **Corporate Budget Items:** corporate wide budgets that are not allocated to individual services / portfolios, including capital financing costs and the provision for redundancy / severance costs.
- **Corporate Savings:** the budgeted saving on review of management costs and budgeted saving from improved sundry debt collection.
- **Corporate income:** formula Grant and Council tax income, some specific grant income and contributions from reserves.

Financials

	FY Outturn £'000	FY Budget £'000	FY Variance £'000
Corporate Budget Items	39,088	42,076	-2,988
Savings Proposals	-418	-450	32
Income from Council Tax, RSG, NNDR, other grants and reserves	-555,536	-549,765	-5,771
Total Corporate Budgets	**-516,867**	**-508,139**	**-8,728**

32. Corporate Budget items are showing a reduction in spending of £3.0m, due mainly to savings on redundancy costs of £1.3m, miscellaneous income of £367k including the recovery of previous years' National Non-Domestic Rates (NNDR) overpayments, £120k saving against the Carbon Reduction Credits budget and £1.2m saving resulting from a reduced revenue requirement to support Digital Region Loan repayment. This outturn is an improvement of £1.2m from the month 11 position and is due to the aforementioned savings in loan repayments for Digital Region.

33. Additional income accounts for the remaining £5.8m reduction in spending, including: a £1.1m RSG refund, £1.4m LACSEG refund, £271k additional Council Tax Freeze grant, two un-ringfenced grants including £947k adoption grant and £98k from the Department of Health (DoH) and more recently the receipt of Small Business Rates Relief Grant (SBRRG) of £2m. This outturn is an improvement of £2m from the month 11 position and is directly attributable to the receipt of SBRRG.

Local Growth Fund

34. The position on the Local Growth Fund is as follows:

LOCAL GROWTH FUND

		£m
Income	Reserves as at 31/03/13	-3.0
	2013/14 NHB Grant	-4.6
	Earned Future NHB Grant	
	Total Income	-7.6
Expenditure	2013/14 Spend	2.9
	Future Years' Commitments	6.0
	Total Expenditure	8.9
	Funding Requirement	**1.3**

35. During the year £2.9m was spent on projects to develop neighbourhoods and encourage or facilitate the supply of homes including significant projects such as:

- Public realm works at Spital Hill and Chaucer (£1.1m);
- The acquisition of Norton Aerodrome as a site for future development (£0.4m);
- Developing local centres (£0.3m);
- Support for the Sheffield Housing Company to deliver new homes (£0.3m);
- Bringing Long term Empty properties back into use (£0.2m); and
- Support from Planning and Regeneration Services (£0.4m).

Public Health Grant – Appendix 1

36. The 2013/14 financial year is the first of Public Health activity since the transfer of responsibility to the Council from April 2013. Appendix 1 provides details of the activities supported by £29.665m of specific grant.

Non-earmarked and earmarked reserves – Appendix 2

37. Within the existing statutory and regulatory framework, it is the responsibility of the Executive Director of Resources to ensure that the Council has an adequate level of reserves and that there are clear protocols for their establishment and use.

38. Work on the reserves balances as at 31 March 2014 is still being undertaken and is dependent on the completion of the statement of accounts. However, the estimated balance of revenue reserves as at 31 March 2014 is £80.1m. This is shown in Appendix 2. Included in the total is a figure of £10.8m of non-earmarked reserves, which is considered to be low but not inadequate based on the requirements of the Council.

39. Earmarked reserves are set aside to meet known or predicted liabilities, such as equal pay claims, but ones that are not certain enough to create an exact provision in the accounts. The liabilities are, however, likely enough to say that the earmarked reserves are not normally available to fund the budget or other measures.

40. Earmarked reserves also exist because of the need to smooth the significant payments made on programmes such as the Major Sporting

Facilities (MSF) and PFI schemes over the 20 year plus terms of the underlying agreements. In both cases the costs being incurred at the moment are lower than the resources available, hence we have a temporary surplus. However, over time this position will change, and future payments will be higher than our resources, so the reserves will be needed to support their primary purpose (around 2015 to 2016).

41. The Council has made significant use of the money from these reserves to fund things on a temporary basis and it is part of the financial plan to have the reserves refunded by the time the call on them is required. The main temporary use has been to support investment in key change projects through Invest to Save and priorities like Streets Ahead.

42. The estimated balance of revenue reserves as at 31 March 2014 is £7.2m higher than the figure of £72.9m stated in the 2014/15 revenue budget report. This is because decisions have been taken to defer spending since the budget was approved, and spending will now occur from those balances during the course of 2014/15. One such example is the specific reserve created for the Lifelong Learning Skills & Communities service to facilitate the delivery of youth savings included in the 2014/15 business plan.

Insurance Fund

43. An independent review of the Insurance Account has been undertaken to identify the level of fund required. This includes:

- Known outstanding liabilities;
- Incurred but not reported liabilities (IBNR), residual IBNR and incurred but not enough reserved (IBNER);
- Claims previously paid by Municipal Mutual Insurance (MMI - one of the Council's Insurers who went into a form of receivership in the 1990s);
- Emerging claims;
- Uninsured asbestos related claims.

44. The Directors of MMI 'triggered' the scheme of arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006). Ernst & Young are now responsible for the management of MMI's business, affairs and assets in accordance with the terms of the Scheme.

45. The Scheme provides that following the occurrence of a Trigger Event, a levy may be imposed on all those scheme creditors which, since the

record date, have paid an amount or amounts in respect of established scheme liabilities which, together with the amount of elective defence costs paid by MMI on its behalf, exceeding £50k in aggregate. Additionally, payments made after the imposition of a Levy in respect of established scheme creditors will be made at a reduced rate (the payment percentage).

46. Ernst & Young have carried out a review of assets and liabilities of MMI and concluded that the initial rate of the levy would be 15%, which has now been paid. The levy will be reviewed at least once every 12 months.

47. The Council has a potential claw back of £3.9m with MMI and £548k relating to South Yorkshire Residuary Body (SYRB).

48. The Insurance Account as at 31 March 2014 has £20.2m; outstanding liabilities as at 31 March 2014 are £24m. The Insurance Account is therefore 85% funded as at 31 March 2014.

Collection Fund – Appendix 3

49. The Council has to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). As at 31 March 2014, the Council's Collection Fund showed a final surplus of £5m (of which the Council's element is around £3.3m). This consists of a £2.3m Council Tax surplus which was rolled forward from 2012/13 and a £2.7m surplus built up from NNDR receipts during the course of 2013/14.

50. As required by statute, an estimate of the year-end position on the Collection Fund was determined on 15 January 2014 which resulted in a small surplus of £171k being made available for the 2014/15 budget.

Collection Fund Year End Position

51. The final surplus of £5m, less the estimated surplus determined in January, will be carried forward in the Collection Fund as a safeguard against any downward movement in local taxation. If the same levels of income generation in 2013/14 are maintained in 2014/15, this surplus may be usable in 2015/16.

Business Rates Surplus

52. The 2013/14 budget was based on the Collection Fund receiving £194.3m from NNDR in the city after allowing for reliefs, losses and the cost of providing for future appeals.

53. As at month 12, the Collection Fund is reporting £196.8m of receipts from NNDR, an increase of £2.5m, as shown in the table overleaf. The key reasons for the outturn position are:

- **Transitional Adjustments** - £1.5m overspend due to unexpected impact of backdated appeals, offset by;
- **Appeals Provision** - £1.2m reduction in spending due to a more favourable reassessment of the likely future success of appeals.
- **Gross Rates** - £1.1m additional income mainly due to the first instalment of payments from the Government's deferral scheme which had not been recognised when setting the 2013/14 budget.
- **Mandatory Reliefs** - £1.1m reduction in spending due mainly to a fall in the number of empty or partly occupied properties qualifying for relief, offset by an increase in the number of properties qualifying for charitable rate relief.

	NNDR1 Budget Estimates	NNDR3 Outturn Actuals	Variance Causing Surplus
Gross Rates	245.5	246.6	1.1
Mandatory Reliefs:			
Charities	-16.2	-16.6	-0.4
Empty Properties	-9.0	-8.4	0.6
Partly Occupied	-1.1	-0.5	0.6
Small Businesses	-6.1	-5.8	0.3
Discretionary Reliefs	-0.6	-0.4	0.2
Losses and provisions:			
Write offs	-2.6	-2.2	0.4
Cost of collection	-0.8	-0.8	0.0
Appeals Provision	-14.8	-13.6	1.2
Transitional Adjustments	0.0	-1.5	-1.5
Net Rates (Distributable)	194.3	196.8	2.5
Central Government Share	97.2	98.4	1.2
SY Fire Authority Share	1.9	2.0	0.1
Sheffield City Council Share	95.2	96.4	1.2

Housing Revenue Account

54. As at month 12 the full year outturn position is a surplus of £11.3m. This represents an improvement of £5.4m from the revised budget surplus of £5.9m. Of the £11.3m surplus, £0.8m will be carried forward into 2014/15 to cover the cost of specific projects, including: Going Local, Access to Housing Allocations and Choice Based Lettings software. The remaining £10.5m has been transferred to the Capital Major Repairs Reserve (MRR). This is to be used to provide funding for the future planned HRA capital investment programme in line with the HRA business plan approved by Cabinet on 15th January 2014.

55. The main reason for the variation in the overall improved position relates to a reduction in capital financing costs of £1.9m. Other main areas contributing to the improvement include leaseholder and service charge income higher than budget of £629k; £285k reduction in spend on repairs and a £3.3m reduction in running costs mainly as a result of staff vacancies, delayed expenditure on various projects and underspends on other budget heads. This is offset by an increase of £489k in the cost of council tax on vacant properties and provision for rent arrears and a £239k reduction in overall rental income.

Financial Results

HOUSING REVENUE ACCOUNT (EXC COMMUNITY HEATING)	FY Outturn £000's *	FY Budget £000's *	FY Variance £000's *	Movement from Month 11
1.RENTAL INCOME	(142,340)	(142,579)	239	⇑
2.OTHER INCOME	(5,391)	(4,762)	(629)	⇑
3.FINANCING & DEPRECIATION	52,662	54,581	(1,919)	⇓
4.OTHER CHARGES	3,653	3,164	489	⇑
5.REPAIRS	32,807	33,092	(285)	⇔
6.TENANT SERVICES	47,339	50,647	(3,308)	⇑
Total	**(11,270)**	**(5,857)**	**(5,413)**	
TRANSFER TO CAPITAL MAJOR REPAIRS RESERVE*	10,476	5,857	4,619	
Grand Total	**(794)**	**0**	**(794)**	

*To fund future capital investment programme.

Community Heating

56. The budgeted position for Community Heating is a draw down from Community Heating reserves of £670k. As at month 12 the full year outturn position is a surplus of £106k which will be added to Community

Heating Reserves. This is largely due to a reduction in spending on gas due to the installation of controls to tenanted properties and milder weather.

COMMUNITY HEATING	FY Outturn £000's *	FY Budget £000's *	FY Variance £000's *
INCOME	(3,516)	(3,548)	32
EXPENDITURE	3,410	4,218	(808)
Grand Total	**(106)**	**670**	**(766)**

Corporate Financial Risk Register

57. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. The most significant risks are summarised in this report for information together with a summary of the actions being undertaken to manage each of the risks

2014/15 Budget Savings & Emerging Pressures

58. There will need to be robust monitoring in order to ensure that the savings agreed for 2014/15 are delivered and fully implemented. Officers have put in place a RAG reporting process which will result in regular reports being submitted to EMT and corrective action will be taken where required.

59. There are a number of issues that will require close monitoring as part of the RAG process. The following have been highlighted because they present the highest degree of uncertainty.

60. The Council intends to implement a new Pay and Reward Strategy in 2014/15, along with a policy regarding the removal of enhancements to pay based on working patterns. By implementing the new strategy, the Council avoids the need to unfreeze increments, which would have cost £5m. Instead, the additional cost of the new strategy is estimated at £600k in 2014/15, which will be partially offset by savings resulting from the revised enhancements policy.

61. The position on pension costs remains a significant risk and increasing cost in 2015/16 when we face an even higher reduction in grant than in 2014/15. An additional budget provision of £9m has been made to cover pension costs in 2014/15, however £4m of this amount is a contribution from reserves. Obviously, this only provides a short-term solution, so further work is being undertaken to look at longer term options.

62. Corporate savings of £4m from capital financing costs have been offered up to balance the 2014/15 budget, on the assumption that market conditions will remain favourable to the Council next year, i.e. interest rates and borrowing requirements will not exceed those stated in the Treasury Management Strategy in the 2014/15 revenue budget.

63. Following the advent of the Government's Business Rates Retention Scheme in April 2013, a substantial proportion of risk has been transferred to local government, particularly in relation to appeals, charitable relief, tax avoidance, hardship relief and negative growth. The issue of appeals dating back to the 2005 rating list is the greatest risk causing concern across all authorities. As at the end of December 2013, there were properties with a rateable value of £158m under appeal in Sheffield, with an allowance for £5m of refunds in 2014/15. Actual trends on appeals are monitored in year, and revised estimates of the impact of appeals have been made as part of the 2014/15 budget process. The Government has made various amendments to business rates regulations in order to support local businesses and stimulate the economy. One such measure is the extension of small business rates relief, for the cost of which the Government has promised to compensate all billing authorities.

64. The risk of delivering adult social care savings in 2014/15 is considerable, given that the Communities portfolio is forecasting an overspend of around £8m for care and support services in 2013/14. This position will be re-assessed as part of the RAG process referred to earlier.

Medium Term Financial Position

65. In the future the Council's financial position will be significantly determined by the level of Business Rates and Council Tax income. Each of these may be subject to considerable volatility and will require close monitoring. Based on the Spending Review in June 2013, the funding position is especially difficult from April 2015 and will require a focus on delivering economic growth to increase our income and on delivering outcomes jointly with other public sector bodies and partners.

Pension Fund

66. Bodies whose Pension liability is backed by the Council are likely to find the cost of the scheme a significant burden in the current economic context. If they become insolvent the resulting liability may involve significant cost to the Council.

Contract Spend

67. The high and increasing proportion of Council budgets that are committed to major contracts impairs the Council's flexibility to reduce costs or reshape services. This is exacerbated by the fact that in general these contracts carry year-on-year inflation clauses based on RPIx which will not be available to the Council's main funding streams, e.g. Council Tax, RSG and locally retained Business Rates.

Economic Climate

68. There is potential for current adverse economic conditions to result in increased costs (e.g. increased homelessness cases) or reduced revenues.

69. The Council seeks to maintain adequate financial reserves to mitigate the impact of unforeseen circumstances.

Trading Standards

70. There is a low risk that it is not possible to recover outstanding contributions from the other South Yorkshire Authorities. However, negotiations are in the final stages and there is an expectation that an agreement will be reached.

External Funding

71. The Council utilises many different grant regimes, for example central government and EU. Delivering projects that are grant funded involves an element of risk of grant claw back where agreed terms and conditions are not stringently adhered to and evidenced by portfolios. Strong project management skills and sound financial controls are required by project managers along with adherence to the Leader's Scheme of Delegation in order to minimise risk.

Treasury Management

72. The ongoing sovereign-debt crisis continues to subject the Council to significant counterparty and interest-rate risk. Counterparty risk arises where we have cash exposure to banks and financial institutions who may default on their obligations to repay to us sums invested. There is also a risk that the Eurozone crisis will impact upon the UK's recovery and would in turn lead to higher borrowing costs for the nation. Whilst this is still a possibility, the UK recovery is beginning to take hold and the associated risk is beginning to ease.

73. The Council is mitigating counterparty risk through a prudent investment strategy, placing the majority of surplus cash in AAA highly liquid and

diversified funds. Ongoing monitoring of borrowing rates and forecasts will be used to manage our interest-rate exposure.

74. The Treasury Management and Investment Strategies have been developed as part of the 2014/15 budget process; officers discussed the Council's risk appetite with members and senior officers as part of this process. This included a review of the Council's counter-party risk to ensure it is reflective of the relative risks present in the economy without being unduly conservative for the improving UK economic position.

75. The Co-op Bank have notified us that they will be withdrawing from the Local Authority banking market with effect from the ending of their contract with us, which is due to end in March 2015. Despite the well-publicised issues with the bank, we do not believe, given the above timescales, there is anything preventing a full and proper tender process being undertaken. Work has begun to scope our requirements in preparation for the tender process.

Welfare Reforms

76. The government is proposing changes to the Welfare system, phased in over the next few years, which will have a profound effect on council taxpayers and council house tenants in particular. The cumulative impact of these changes will be significant. Changes include:

- **Abolition of Council Tax Benefit:** replaced with a local scheme of Council Tax Support from April 2013. The Council approved the replacement scheme, based on the reduced funding available from Government, and set up a hardship fund in January 2013, but there are risks to council tax collection levels and pressures on the hardship fund which are being closely monitored.

- **Housing Benefit changes:** there have been a number of changes, including the implementation of the 'bedroom tax', from April 2013 where the impacts are that a significant number of claimants are now receiving fewer benefits, thereby impacting on their ability to pay rent.

- **Introduction of Universal Credit:** originally scheduled from October 2013 but now delayed, awaiting further update from DWP who will administer it. Along with the impact of reducing amounts to individuals and the financial issues that might cause, the biggest potential impact of this change is the impact on the HRA and the collection of rent. This benefit is currently paid direct to the HRA; in future this will be paid direct to individuals. This will potentially increase the cost of collection and rent arrears. There will also be an impact on the current contract with Capita and internal client teams.

Children, Young People and Families Risks

Education Funding

77. In 2013/14 19 of the Council's maintained schools became independent academies (16 primary / 3 secondary). Academies are entitled to receive a proportion of the Council's central education support services budgets. Based on projected academy conversions it is estimated that:

    - up to £1.75m of DSG funding will be deducted from the Council and given to academies to fund support services.
    - up to £2.62m will be deducted from the Council's DCLG funding, under the new Education Services Grant (ESG), and given to academies.

78. If an academy is a sponsored conversion then the Council will have to bear the cost of any closing deficit balance that remains in the Council's accounts. It is estimated that this may be up to £545k based on known academy conversions during 2013/14.

79. Where new independent schools (free schools) or Academies are set up and attract pupils from current maintained PFI schools, then the funding base available to pay for a fixed long term PFI contract would reduce, leaving the Council with a larger affordability gap to fund. There are also further potential risks if a school becoming an academy is a PFI school, as it is still unclear how the assets and liabilities would be transferred to the new academy and whether the Council could be left with residual PFI liabilities.

Communities Risks

NHS Funding Issues

80. There are significant interfaces between NHS and Council services in both adults' and children's social care. The Council has prioritised these services in the budget process, but savings have nevertheless had to be found. Working in partnership with colleagues in the Health Service efforts have been made to mitigate the impact of these savings on both sides. However, ongoing work is required now to deliver these savings in a way that both minimises impacts on patients and customers and minimises financial risks to the NHS and the Council.

81. The Council is participating in the Right First Time (RFT) programme with the Clinical Commissioning Group (CCG) and Hospital Trust. This programme aims to shift pressures and resources from the hospital to community settings over the longer term, which should assist the Council in managing adult social care pressures, but there are risks to programme delivery at the same time as delivering funding cuts.

Resources Risks

Digital Region

82. At the time of making the decision to close the company and migrate its business (including the Council's) to other networks, the cost to the shareholders was estimated at £83.3m, with SCC's share of this being £14.3m. This was a lower cost than the likely cost of continuing with the procurement and also less risky. The SCC cost of £14.3m is within the amount of money set aside to cover DRL costs in the 2012/13 accounts (£15m was set aside).

83. All these figures were based on estimates and some costs cannot be firmed up until existing contracts are terminated and negotiations on new ones commence. However, since the decision was made to close, progress has been good and costs now look like they will come in lower than was estimated. The key issue remaining is that value may result from a sale of the assets and whether that reintroduces risk.

Electric Works

84. The running costs of the business centre are not covered by rental and other income streams. The approved business plan set-aside contingency monies to cover potential deficits in its early years of operation. However, there remains a risk that the occupancy of units within Electric Works might be slower (lower) than that assumed within the business case, such that the call on the contingency is greater (earlier) than planned.

85. A full review of the options for the future is underway and will be reported to Members as soon as possible.

Housing Revenue Account Risks

Housing Revenue Account (HRA)

86. There are a number of future risks and uncertainties that could impact on the 30 year HRA business plan. As well as the introduction of Universal Credit, outlined in the risk above, the main identified risks to the HRA are:

- **Interest rates:** fluctuations in the future levels of interest rates have always been recognised as a risk to the HRA.
- **Repairs and Maintenance:** existing and emerging risks within the revenue repairs budget include unexpected increased demand (for example due to adverse weather conditions).

Capital Programme Risks

Capital Receipts and Capital Programme

87. Failure to meet significant year on year capital receipts targets due to reduced land values reflecting the depressed market and the impact of the Affordable Housing policy. This could result in over-programming / delay / cancellation of capital schemes.

Housing Regeneration

88. There is a risk to delivering the full scope of major schemes such as Parkhill and SWaN because of the severe downturn in the housing market. This could result in schemes ‘stalling’, leading to increased costs of holding the sites involved, and in the case of SWaN, potential exposure to termination payments which would fall to the HRA to meet.

CAPITAL PROGRAMME MONITORING 2013/14 – As at 31st MARCH 2014

Summary

89. At the end of March 2014, the outturn position is £116.5m which is £12.6m (10%) below budget. Compared to the Month 11 variance, which was £9.0m below budget this is an adverse movement of £3.5m on the previous month which is attributable to new approvals added to the capital programme. £0.5m is within CYPF and relates to Carfield Boilers and Don Valley School. £2.2m is within Highways and relates mainly to the BRT programme.

Financials 2013/14

All figures reported in £000

Portfolio	Outturn £000	Budget £000	Variance £000	Month 11 Forecast £000	Change on Month 11 £000
CYPF	27,742	29,122	-1,380	28,153	-411
Place	20,207	22,023	-1,815	21,259	-1,052
Housing	41,022	45,753	-4,731	41,486	-464
Highways	11,221	13,896	-2,675	10,441	780
Communities	1,173	1,404	-231	1150	23
Resources	7,938	9,687	-1,749	8,488	-550
Corporate	7,218	7,218	0	7,218	0
Grand Total	**116,521**	**129,103**	**-12,581**	**118,195**	**-1,674**

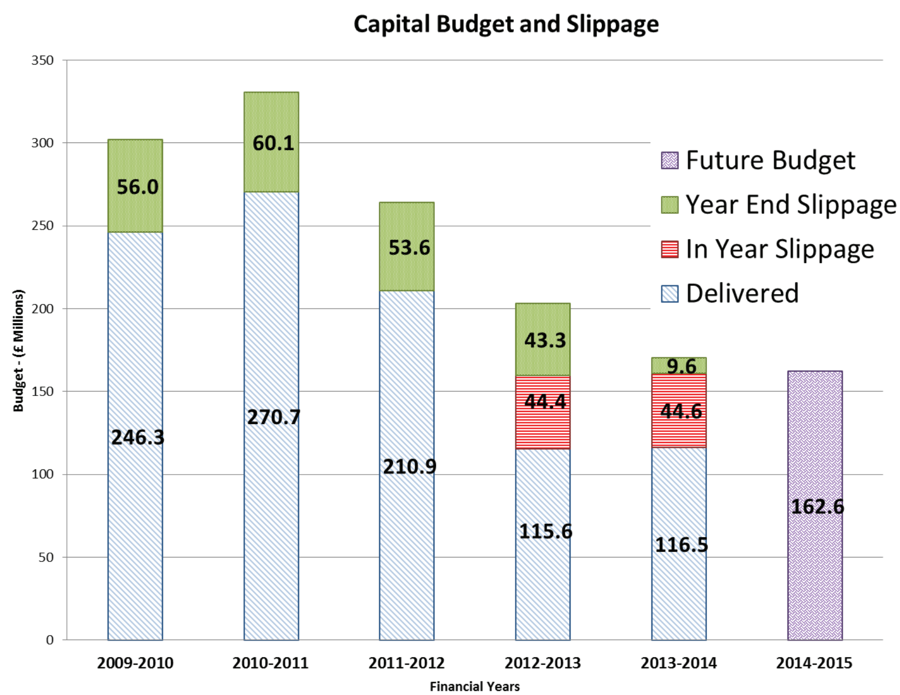
90. The outturn position is £12.6m (10%) below the budget. The main reason for this is £9.6m of slippage at the year end which is due to be brought forward for approval. £1.7m of this slippage occurred within the last month. There is a further £2.6m of project underspends with the majority relating to the environmental improvements in the Housing programmes at South West Abbeybrook, South East and North New Parson Cross. On all 3 schemes the estimates put forward by the contractor were over estimated by around 400 heating installations.

91. Detailed comments on each programme can be found below.

Slippage

92. The table below shows the level of slippage in the capital programme over the past 5 years. There has been a significant reduction in year end slippage requests, compared to previous years, due to the concerted efforts of Finance, Capital Delivery Service (CDS) and project managers to define realistic budgets. The year end slippage in 2012/13 of £43.3m equates to 21.6% of the total capital programme. This has reduced to £9.6m in 2013/14 which is just 5.6% of the overall programme. In order to maintain this improvement it is vital that accurate forecasting is built in to project management procedures as the supervisory support from Finance and CDS is not sustainable.

93. Although there have been signs of improvement in the level of year end slippage, the overall value for 2013/14 at £54.2m still remains relatively high at 31.7% of the total programme. The actual level of slippage seen this year is similar to that seen in prior years but the significant difference being that in these earlier years the total programme value was more than double that in 2013/14.



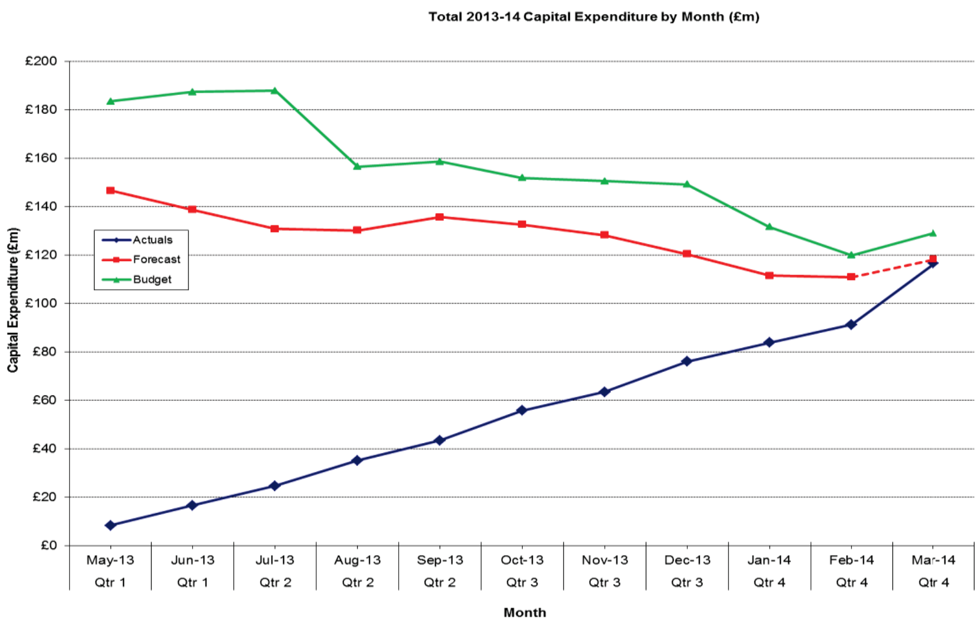
94. The table below shows the analysis of the 2013/14 slippage by portfolio. The year end slippage requests will be brought forward for approval.

Portfolio	In Year Slippage (£m)	Year End Slippage (£m)	% of Year End Slippage	Total Slippage (£m)
Housing	28.1	2.4	8.0%	30.5
Resources	6.2	1.5	19.1%	7.7
Other Place	3.7	1.9	33.2%	5.6
CYPF	3.2	1.0	24.4%	4.2
Highways	2.0	2.7	57.9%	4.7
Communities	1.4	0.1	6.5%	1.5
TOTAL	**44.6**	**9.6**		**54.2**

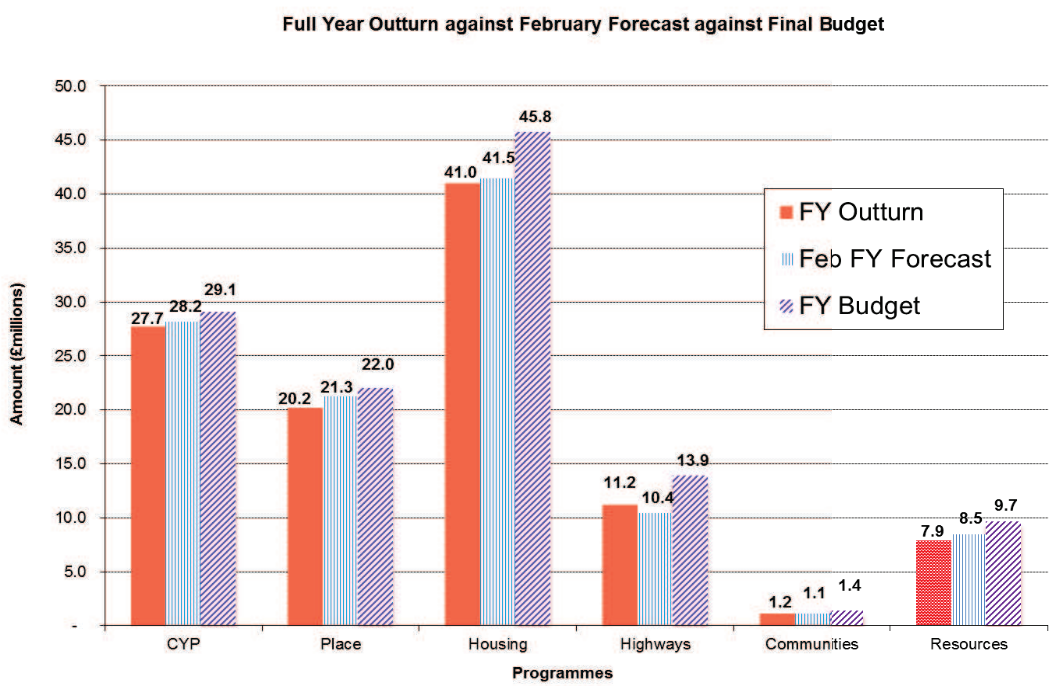
Financial Outturn

95. The final outturn position of £116.5m is a £25.3m increase on the Year To Date position at Month 11. It should be noted that in months 1-11

average monthly spend was £8.2m, this increased to £14m in month 12. In addition to this a further £11.3m of accruals were taken at year end. The graph below demonstrates this spike in expenditure.



96. The graph and tables below show a comparison of the month 11 forecast position compared to the actual outturn by portfolio.



CYPF

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
BSF	10.6	11.2	-0.6	11.0	-0.5
New Primary Schools	6.6	4.6	2.0	5.8	0.8
Primary Mtce	6.0	7.1	-1.1	5.9	0.1
PPG	2.6	3.5	-0.9	2.9	-0.3
Devolved Formula	1.1	1.2	-0.1	1.2	-0.1
Grace Owen	0.0	0.0	0.0	0.0	0.0
Other	0.9	1.6	-0.7	1.4	-0.5
Total CYPF	**27.7**	**29.1**	**-1.4**	**28.2**	**-0.4**

97. The final outturn position across the CYPF programme is £0.4m short of the Month 11 forecast. This is due to £0.8m accelerated spend on the two New North East Primary Schools offset by a £0.5m underspend on BSF which relates to a delay in incurring ICT programme costs and savings on the estimated final accounts forecasts for completed schools.

98. The (£0.5m) 'Other' projects variance relates to underspends of £0.2m on BSF Infrastructure and £0.2m on Highways Forge Valley.

PLACE

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
RADS (excluding Housing & Highways)	2.3	2.5	-0.2	2.6	-0.3
BSR	0.1	0.1	0.0	0.1	0.0
C&MP	14.4	15.3	-0.9	14.8	-0.4
Culture & Env	1.0	2.1	-1.1	1.5	-0.5
Creative Sheffield	2.4	2.0	0.4	2.3	0.1
Total PLACE	**20.2**	**22.0**	**-1.8**	**21.3**	**-1.1**

99. The movement between the month 11 forecast and the final outturn position across Place is a £1.1m shortfall in spending. £0.6m relates to discrepancies between the month 11 forecast and the actual outturn position within C&MP on Castle Market Decommissioning (delayed following the grant of an extended period to traders to vacate the Castle Market premises), Non-Office Asset Rationalisation and New Retail

Quarter development where there has been less spend on professional services than anticipated. This is being offset by £0.5m increase in costs linked to the new Market development.

100. There is a further (£0.5m) within Culture & Environment that relates to delays in the delivery of the DVS Asset Enhancement and Stocksbridge Leisure Centre Demolition projects. The latter has not occurred following the transfer of the operation to a community group.

Housing

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
Area Redevelopment Schemes	1.2	1.3	-0.1	1.2	0.0
New Homes & Improvements	8.6	9.0	-0.3	8.7	-0.1
Housing Services Schemes	30.4	34.2	-3.9	30.6	-0.3
Homes & Loans	0.8	1.3	-0.5	0.9	-0.1
Total HOUSING	**41.0**	**45.8**	**-4.7**	**41.5**	**-0.5**

101. The movement between the month 11 forecast and the final outturn position across Housing is (£0.5m). The reason for this is timing issues with the acquisition process linked to SWAN and Arbourthorne 5Ms.

102. There is also a further (£0.3m) against Sharrow ALMO Works and Building regulation fireworks which relates to lower demand of product produced by these projects.

Highways

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
Sheffield LTP	4.1	5.3	-1.2	4.4	-0.3
BRT North	3.9	5.0	-1.2	2.7	1.2
Better Buses	1.4	1.5	-0.1	1.4	0.0
Other	1.9	2.0	-0.2	2.0	-0.1
Total HIGHWAYS	**11.2**	**13.9**	**-2.7**	**10.4**	**0.8**

103. The movement between the month 11 forecast and the final outturn position across Highways is an increase of £0.8m. The majority of this relates to more spend on the BRT project of £1.2m, which is being offset by (£0.3m) of projects which will slip in to the new year.

104. Transport programme spend in the final month was £4.3m compared to £6.9m in the previous eleven.

Communities

105. The movement between the month 11 forecast and the final outturn position across Communities is a slight increase of less than £0.1m.

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
Care & Support	0.3	0.5	-0.2	0.3	0.0
ICT	0.9	0.9	0.0	0.9	0.0
Other	0.0	0.0	-0.1	0.0	0.0
Total COMMUNITIES	**1.2**	**1.4**	**-0.2**	**1.1**	**0.0**

Resources

Programme	Actual Month 12	Budget Month 12	Variance	Month 11 Forecast	M11 Forecast v FY Spend
Other	0.1	0.0	0.1	0.1	0.0
Work Place Project	5.1	5.4	-0.2	5.4	-0.2
Facilities Management	2.7	4.3	-1.7	3.0	-0.3
Total RESOURCES	**7.9**	**9.7**	**-1.7**	**8.5**	**-0.5**

106. The movement between the month 11 forecast and the final outturn position across Resources is (£0.5m), which relates mainly to an unrealistic project profile for the CBT Woodhouse / Tannery Lodge project which will slip into next year.

Approvals

107. A number of schemes have been submitted for approval in line with the Council's agreed capital approval process.

108. Below is a summary of the number and total value of schemes in each approval category:

- 2 additions to the capital programme with a total value of £107k
- 1 variation to the capital programme creating a reduction of £35k
- 1 slippage request with a total value of £286k
- 3 procurement strategies with a total value of £9.3m
- 24 emergency approvals with a net decrease of £17.5m

109. Further details of the schemes listed above can be found in Appendix 4.

Treasury Management Issues

110. Under the terms of the CIPFA Code of Practice on Treasury Management, there is an obligation to report on the borrowing and investment activity which has been undertaken during the year. This is contained in Appendix 5.

111. Furthermore, under the Prudential Code For Capital Finance, the Council also needs to report on the actual Prudential Indicators for the year and compare these against the original indicators which were set as part of the 2013/14 Revenue Budget approved by Council on 1 March 2013. These are also contained in Appendix 5.

112. In summary, the Council has complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities.

Implications of this Report

Financial implications

113. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2013/14 and, as such it does not make any recommendations which have additional financial implications for the City Council.

Equal opportunities implications

114. There are no specific equal opportunity implications arising from the recommendations in this report.

Property implications

115. Although this report deals, in part, with the Capital Programme, it does not, in itself, contain any property implications, nor are there any arising from the recommendations in this report.

Recommendations

116. Members are asked to:

(a) Note the updated information and management actions provided by this report on the 2013/14 Revenue budget position.

(b) In relation to the Capital Programme, Cabinet is recommended to:

(i) approve the proposed additions to the capital programme listed in Appendix 4, including the procurement strategies and delegations of authority to the Director of Commercial Services or Delegated Officer, as appropriate, to award the necessary contracts following stage approval by Capital Programme Group;

(ii) approve the proposed variations and slippage in Appendix 4, and

(c) note the year end position on the Capital Programme.

Reasons for Recommendations

117. To formally record changes to the Revenue Budget and the Capital Programme and gain Member approval for changes in line with Financial Regulations and to reset the capital programme in line with latest information.

Alternative options considered

118. A number of alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members. The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to which funding is put within the Revenue Budget and the Capital Programme.

Andrew Eckford
Interim Director of Finance

Public Health Out-turn 2013/14

Introduction

1. The 2013/14 financial year is the first of Public Health activity since the transfer of responsibility to the Council. The following details set out the use of the £29.665m of specific grant including the use of £811k grant in 2014/15.

Public Health Outcomes

2. As this was the first year following the transition of the public health functions from the NHS, a conscious decision was made to continue the majority of contracts for commissioned services so as to facilitate a smooth transition. Having said that, 11% was removed from most, but not all, contract values, in keeping with the reduction in contract values more widely across the Council. This, together with the small increase in the grant compared to the total cost of commitments being transferred from the NHS, meant that it was possible to make approximately £3.4m of resources available to fund programmes which would not have been sustainable out of SCC revenue allocation.

3. The largest areas of spend were on drug treatment services (£8.4m) and sexual health services (£6m) These are both clinical services, and so are inherently expensive. All local authorities are spending a high proportion of the public health grant allocation on these services. The commissioning of sexual health services is mandatory.

4. £3.7m was spent on children's public health services, including school nursing, early years work and community genetics initiatives. The next largest areas of spend were on tobacco control and stop smoking services (£1.5m) healthy communities/social capital work (£1.2m) weight management (£685k) health checks (mandatory) (£600k) and physical activity (£492k).

5. Lesser amounts were spent on a variety of other areas including domestic violence advocacy, treatment of alcohol dependency, work and health, mental health, dental public health and housing and health initiatives.

6. The overall expenditure on staffing was approximately £3m, i.e. approximately 10% of the grant overall.

7. Service which were potentially unstainable from traditional funding streams include £1.4m in CYPF to pay for a variety of early years programmes, including breastfeeding peer support, the doula programme etc. £1.4m in Communities to support a range of initiatives related to adult social care and £400k in Place supporting Activity Sheffield.

8. During the course of the financial year a further £1.9m was allocated to Communities to support the housing floating support programme.

9. In light of the expectation that there may have been financial commitments emerging from the transition of public health from the NHS during the course

of the financial year, a contingency reserve was maintained. This was initially approximately £800k, from which a payment was made to NHS England for the cost of community dental treatment. This was a one off payment which will not be repeated in future. In addition, there were a large number of funded vacancies in the public health team, the majority in Communities, which were frozen.

10. The Public Health Outcomes Framework is a set of 66 indicators (many divided into sub indicators) which cover different aspects of public health. Public Health England publish this data for all local authorities. Unfortunately it is of limited value as a tool to monitor in year performance as there is a significant delay before data is published, so that for example there is no data yet available for the year 2013/14. Nevertheless the performance against the different indicators is being kept under review within Portfolios and the DPH Office, and in the DPH – ED review meetings. Where Sheffield's performance was of particular concern, either in relative or absolute terms, this was also highlighted in the DPH Annual Report.

Financial Implications

11. The allocation of the grant followed the devolved accountability structure to portfolios with the Director of Public Health holding the overview and unallocated resources. The table below shows the original allocation, subsequent revised allocation and final outturn position across the 4 portfolios.

	Original allocation	*Revised Allocation*	*Out-turn*	*Variance over / (underspend)*
DPH	3,106,255	2,560,918	2,246,272	(314,646)
Place	3,412,097	3,412,097	2,915,566	(496,531)
CYP	9,961,073	9,961,073	9,961,073	0
Communities	12,336,875	13,731,212	13,731,212	0
Unallocated	849,000	0	0	0
Total allocation	29,665,300	29,665,300	28,854,123	(811,177)

12. The revised allocation to Communities reflects an additional grant allocation of £1.9m for floating housing support which is offset by vacancies within that Portfolio as highlighted above.

13. The resulting underspend after this adjustment is £811k which, under the grant conditions, is available for use in 2014/15.

14. The main reasons for the underspend in year prior to the reallocation to Communities was
- Contingency held for at the start of the year as outlined above.
- High level of vacancies held during the year, mainly with in Communities

- Underspend on the stop smoking contract (£487k) due to the contracting not delivering the level of “quits” in 13/14 as budgeted for (1,900 out of 3,000)

Use of grant in 2014/15

15. There are currently commitments against this underspend as previously agreed during the budget setting process along with pressures that have come to light after the budget was set.

    Existing commitments: Communities Portfolio £135k agreed as part 2014/15 budget process.

    Unforeseen costs at time of budget setting: Prescribing costs for drug treatment services £430k, these costs were not flagged as Public Health costs in the original return submitted September 2011 and so not built in to the allocation. However they are the Councils responsibility and during 2013/14 these were met by the CCG. The CCG is not seeking a reimbursement for last year but is expecting the Council to pick up this cost going forward. The CCG has been approached to discuss phasing of the transfer of this cost to SCC through the year. This cost is ongoing and will need to be addressed in the 2015/16 budget process going forward.

16. The above two elements commit £565k of the available grant leaving £246k remaining. During the 2014/15 budget process a number of bids were received but funding was not available to support them all. There are a number of projects that will now be supported on a one off basis in 2014/15 and this support will amount to £130k.

17. The remaining balance of £116k will be held as a contingency and subject to further review.

NON-EARMARKED AND EARMARKED REVENUE RESERVES

* a negative number indicates that the reserve is in deficit: in this case because of up front investment that is to be repaid in future years from savings

Description	Balance at 31/03/13 £000	*Movement in 2013/14 £000*	Balance at 31/03/14 £000	*Movement in 2014/15 £000*	Balance at 31/03/15 £000	Explanation
Non-earmarked Reserves						
General Fund Reserve	11,182	(366)	10,816	0	10,816	The Council's working balance: used as a last resort for emergency spend. Level at just over 2% of net spending benchmarks low compared to most Local Authorities. This reserve includes the 2013/14 overspend of £415k.
	11,182	***(366)***	**10,816**	**0**	**10,816**	
Earmarked Reserves						
PFI Reserve	17,264	103	17,367	(254)	17,113	The PFI reserve represents grant we have received in advance of the need to make payments. It is set aside to ensure we can cover the cost of contracts in future years. The deficit on the Streets Ahead represents project costs incurred prior to the start of the programme and will be fully repaid in 2014/15.
Streets Ahead Reserve	(11,953)	6,761	(5,192)	8,950	3,758	
Total PFI Reserve	**5,311**	**6,864**	**12,175**	**8,696**	**20,871**	
Invest to Save Reserve:						This reserve is in deficit because it has funded up front investment in the Capita contract (mainly ICT investment) and various Transformation projects (e.g. procurement savings; changes in finance including replacement of the council's finance system and Customer First). These projects have been funded on an invest-to-save basis with savings being used in two ways, to repay the reserve by 2015 and an annual contribution, now £3.5m to support the revenue budget.
Projects	(5,379)	4,597	(782)	4,803	4,021	
Capita Contract	(12,309)	4,542	(7,767)	4,860	(2,907)	
Customer First	(8,433)	(1,507)	(9,940)	(826)	(10,766)	
Investment Fund	959	2,300	3,259	700	3,959	
Total Invest to Save Reserve:	**(25,162)**	**9,932**	**(15,230)**	**9,536**	**(5,693)**	

Major Sporting Facilities	**41,027**	**(7,801)**	**33,226**	**(9,662)**	**23,564**	This fund has been made available on a temporary basis to support Invest to Save projects as described above, but will be required to fund the future costs of the Major Sporting Facilities (re Ponds Forge, Don Valley Stadium and Hillsborough Leisure Centre).
Local Growth Fund	**1,697**	**(142)**	**1,555**	**3,553**	**5,108**	This reserve is earmarked to support economic development across the City.
Insurance Fund Reserve	**0**	**9,394**	**9,394**	**(3,000)**	**6,394**	Following the 2012/13 external audit conducted by KPMG, funds relating to potential insurance claims against the council need to be split between Provisions and Reserves. Previously all the funds were reported as Provisions within the Statement of Accounts. As a result of this change, £9.4m has been transferred to Revenue Reserves in 2013/14.
Other earmarked	**28,681**	**(475)**	**28,206**	**(6,497)**	**21,709**	Various earmarked funds including Equal Pay Provisions, Redundancies, Social Care Pressures, Business Rate Appeals and portfolio reserves as agreed by Cabinet in previous years for service specific issues e.g. Troubled Families Support.
Total Earmarked Reserves	**51,554**	**17,772**	**69,326**	**2,627**	**71,952**	
Total Revenue Reserves	**62,736**	***17,406***	**80,142**	**2,627**	**82,768**	

Schools Reserves

The balance on schools reserves allocated under Local Management of Schools Legislation of £16m is not shown in the above table as it does not form part of the usable reserves - it is restricted to spend on schools.

APPENDIX 3

The following table shows the Collection Fund as it will appear in the 2013/14 Statement of Accounts in line with CIPFA Guidance.

2012/13 Business Rates £000	2012/13 Council Tax £000	2012/13 Total £000	Collection Fund	2013/14 Business Rates £000	2013/14 Council Tax £000	2013/14 Total £000
			INCOME			
	-186,634	-186,634	Council Tax Receivable		-198,996	-198,996
	-46,533	-46,533	Council Tax Benefits - Grant Transferred from General Fund		0	
-205,221		-205,221	Business Rates Receivable	-215,211		-215,211
		0	Business Rates Transitional Protection Payments	-15		-15
-205,221	**-233,167**	**-438,388**	**Total Income**	**-215,226**	**-198,996**	**-414,222**
			EXPENDITURE			
			Precepts and Demands			
	197,737	197,737	SCC	95,265	164,733	259,998
	9,618	9,618	Fire	1,944	8,167	10,111
	21,153	21,153	Police		18,254	18,254
198,298		198,298	Central Government Share of NNDR	97,154		97,154
198,298	**228,508**	**426,806**	**Total Precepts and Demands**	**194,363**	**191,154**	**385,517**
0		0	Business Rates Transitional Protection Payments	1,474		1,474
1,900	1,493	3,393	Impairment of debts: - write offs	2,173	903	3,076
4,249	1,410	5,659	- adjust allowance for impairment	92	7,012	7,104
0		0	Appeals - adjust allowance for impairment	13,600		13,600
774		774	Cost of Collection	775		775
0			Enterprise Zone Relief	55		55
	597	597	Contribution towards previous year's estimated surplus/(deficit)	0		0
205,221	**232,008**	**437,229**	**Total Expenditure**	**212,532**	**199,069**	**411,601**
0	-1,210	-1,210	Opening Fund Balance	0	-2,369	-2,369
0	-1,159	-1,159	Movement on Fund Balance	-2,694	73	-2,621
0	-2,369	-2,369	Closing Fund Balance	-2,694	-2,296	-4,990

Scheme Description	**Approval Type**	**Value £000**	**Procurement Route**
GREAT PLACE TO LIVE			
Highways			
Green Routes Network The project is to develop and add to existing cycling infrastructure in green spaces with the creation of joined up cycle routes connected via quieter roads. It will create end-to-end routes which link outer suburbs through inner city green spaces to the City Centre, connecting centres of employment, leisure, sport and education. This project links to the Council's current strategy of creating cycle routes connecting residential areas with employment areas, improving access to opportunities for all. Initial priority areas include: - Sheffield and Tinsley Canal (widening, resurfacing and access improvements), 5 Weirs Walk / Blackburn Valley (reconfigurations / improved crossings / links) and a route to Oughtibridge (including segregated provision, access improvements and track creation). The project is funded from the 2014/15 LTP allocation.	Addition	72	Schedule 7 Streets Ahead Contract
Hackenthorpe Community Centre Building This project will extend the building to install a new kitchen at the Hackenthorpe Community Centre. The Centre has provided a valuable community facility since 1960, originally as a library and from 1996 as a community building when Hackenthorpe Community Centre Group took over the building. The current kitchen is too small to meet the needs of user groups when cooking for a large number of people and does not meet current	Addition	35	Procurement route is to follow Standing Orders for work <£50k, obtaining a minimum of 4 competitive quotations on this occasion.

legislative requirements for ventilation. The ward councillors have expressed their support for investment in the building. The Community Investment Plan proposes to retain and invest in the building. It is funded from capital receipts set aside for Community Buildings Maintenance.			
Community Buildings Maintenance Backlog Block Allocation This block allocation is set up to provide for the maintenance backlog of buildings within the community buildings portfolio. This variation is to request slippage of £286k into 2014/15 and then to apply £35k of the 2014/15 allocation to the Hackenthorpe Community Building project above. The use of the remaining unspent allocation will be reviewed against the 2014/15 demands on capital receipts.	Slippage & Variation	-286 -35	n/a n/a
PROCUREMENT STRATEGY			
New and Replacement Heating 2014/17 – Contracts B & C This Work comprises the supply and installation of wet system central heating to properties with heating currently classified as obsolete, properties with no current space heating and properties where the heating is still working but requires urgent planned replacement. The new A rated boilers will help reduce fuel poverty amongst Council tenants. There will be some long term revenue cost savings to the Council as a result of lower maintenance requirements. The Tenders for Contracts A, D and E have all recently been approved. The remaining Contracts B & C will be procured through the Efficiency North framework. The Contractors on the relevant ENProcure Lot have already pre-qualified and they will	Procurement Strategy	9,000	Efficiency North Framework

all be contacted to confirm their interest in these Contracts. Financial checks will be undertaken on the contractors expressing an interest in order to minimise the risk of financial exposure to the Council. The Contract will be awarded on the basis of 80% price and 20% quality. The quality evaluation will include tenderers' proposals for employment and skills objectives which will be set out in the Tender Documents. A provision will be made in the Tender Documents to include an option for obtaining materials via the Re:allies Materials Framework. Contractors will be requested to include their net prices for key materials within their tender submissions. These prices will then be compared with those obtained from the Re:allies Materials Framework to assess which option gives overall better value-for-money. If the material prices from the merchant framework are significantly better than the contractor prices, the successful contractor will be required to use the merchant framework - effectively as a nominated supplier. This will enable us to procure efficient Installation Contractors whilst maximising the impact of aggregated buying power for leading brand heating products and therefore help us deliver better overall prices. The Contractor would still do everything the same as if it were their own material provider i.e. ordering and invoicing etc. This approach will be made very clear in the invitation to tender. This is to be a 3.5 year contract with a budget of £9m in total made up of Contract B (£4.15m) and contract C (£4.15m), project management fees of £0.7m and is funded by the Housing Revenue Account.			
CBT Wincobank Community Building The Wincobank community has been without a Council-owned community building	Procurement Strategy	276	Change from YORbuild to

since the Wincobank Wash House, Merton Lane, was closed in 2005 and demolished in 2008 on health and safety grounds. The need for the provision of community space has been demonstrated in a number of feasibility studies and there is unmet demand within the area. This project is for the remodelling and refurbishment of the upper floor of the communal block from the partially retained Newman Court Sheltered Accommodation and will create a community facility with a café, toilets, garden terrace area and a large flexible multi-use space. The added value for the community is the package of the size and flexibility of accommodation, enabled access and availability for general community use. The original procurement strategy, dated 15 November 2011, incorporated an estimate of £240k which included the refurbishment to the ground floor only. Further design work identified refurbishment of the first floor would fit best with the need to complete the full building envelope, i.e. roof and outer rear wall refurbishment. Additionally, refurbishment of the first floor provides a more secure space and also offers improved DDA access via a level ramp from the upper car parking area. The refurbishment of the ground floor would be undertaken at a later date and the funds for this would be raised by the community group which will be using the new community facility situated on the first floor. The above changes resulted in an increased estimate of £276k which was included in a revised approved Procurement Strategy dated 2 January 2013. A Capital Approval form approval secured the current budget for the project of £276k. Due to delays in programme, the addition of unforeseen works and an unexpected increase in tender costs this scheme came back from tender over the allowed budget. Since then extensive value engineering has been undertaken to reduce costs and this indicates the current design is the best value option to provide community space in lower Wincobank.			Constructionline

The original procurement strategy is for construction works previously described to be tendered using the YORbuild framework; however, this resulted in a poor tender return and high tender costs. It is therefore recommended that the most appropriate route now to obtain best value is to use the Constructionline database to select six contractors of a suitable size and with suitable experience in this type of project.			
Local Transport Plan 2014/15 These projects are not part of the "core" Streets Ahead highways maintenance contract but the Council's agreed strategy is to deliver these "non-core works" through Amey, as the great majority of the schemes can be delivered simultaneously with the Streets Ahead project maximising value for money and minimising disruption to highway users. The programme has therefore been designed to align with Amey's "zonal" programming approach as closely as possible.	Procurement Strategy		Single source tender and in accordance with Schedule 7 of the Streets Ahead contract
EMERGENCY APPROVALS:- (Note only)			
SUCCESSFUL CHILDREN & YOUNG PEOPLE			
Don Valley School This £16.7m project will design and build a new school in the Don Valley area. Increased pupil demand has led to a requirement for new school places to be created from September 2015. It is proposed to create a new 2-16 through school on the site of the former Don Valley Stadium to alleviate this demand. Emergency approval was sought in order for the school to be constructed and delivered by September 2015, as the feasibility and design to RIBA Stage 3 needed to begin as soon as possible. Additionally, a quick decision was required to both meet the	Emergency Approval (Addition)	16,700	Design: External Co. agreed through waiver of standing orders. Two-stage design and build: Yorbuild framework stipulates the use of the NEC 3 form of contract. (main option clause to

Council's statutory duty to provide sufficient school places and to minimise the risk of clawback of monies not expended by September 2015. The project will be funded from the Department for Education (DfE) Targeted Basic Need (TBN) and Basic Need (BN) allocations. Any shortfall after the TBN grant has been applied is to be funded through the BN allocation for 2014/15. Funding conditions mean that the additional school places resulting from this scheme must be available from September 2015.			be utilised yet to be finalised).
Norfolk Park Special School This project aims to provide a new specialist teaching environment for Norfolk Park Primary Special School through refurbishment and extension of an existing, currently unused, SCC building in the South of the City. The refurbishment will be whole scale and will include new mechanical and electrical services and new finishes throughout and work to improve the external envelope. The project is to be funded from the Department for Education Capital Maintenance grant. The originally approved budget of £4.2m has been uplifted by £531k by way of an Emergency CAF variation in order to accommodate the increased cost of contract works following tender returns and enable a Contract Award to be issued.	Emergency Approval (Variation)	531	n/a
GREAT PLACE TO LIVE			
Highways – Various projects. A number of emergency approvals have been authorised within the Highways Capital Programme. The budget revisions were required to accurately reflect the forecast spend on projects for 2013/14 and to add further funding for 2014/15 for projects funded by LTP and Better Buses monies. The approvals are summarised in the tables below:	Emergency Approvals		n/a

LTP CAF's		APPROVED CAF's				Revised CAF (including 2014/15 additional funding)			
BU	**Description**	**TOTAL 2013/14 000,s**	**2014/15 000,s**	**Total Approved 000's**		**TOTAL 2013/14 000's**	**2014/15 000's**	**Total Revised 000's**	**Variation 000's**
92746	Upperthorpe Permit Parking	46.2	0.0	**46.2**		73.2	25.0	**98.2**	**52.0**
93860	Parking Enforcement Equip	142.0	0.0	**142.0**		165.0		**165.0**	**23.0**
92712	Community Assembly North	17.7	0.0	**17.7**		30.7		**30.7**	**13.0**
92709	Community Assembly South	74.1	0.0	**74.1**		112.0		**112.0**	**37.9**
91662	PROW	110.0	0.0	**110.0**		147.0	120.0	**267.0**	**157.0**
90703	Blackburn Valley Cycle Route	85.7	0.0	**85.7**		181.5	130.0	**311.5**	**225.8**
93655	Monteney Primary School	84.6	0.0	**84.6**		90.5		**90.5**	**5.9**
94438	Road Safety Audit	51.6	0.0	**51.6**		66.6		**66.6**	**15.0**
93350	Streets Ahead Opps	114.0	0.0	**114.0**		200.0		**200.0**	**86.0**
93110	BB2 Chesterfield Rd	842.6	0.0	**842.6**		1,042.6	100.0	**1,142.6**	**300.0**
94144	Northern General Parking Scheme	29.3	0.0	**29.3**		27.2	16.3	**43.5**	**14.2**
92741	Penistone Rd, Livesey-Lowther	194.6	0.0	**194.6**		70.0	214.5	**284.5**	**89.9**
94449	DMC Parkway	7.0	0.0	**7.0**		2.0		**2.0**	**-5.0**
92769	Accident Saving Scheme	100.0	0.0	**100.0**		40.0		**40.0**	**-60.0**
93354	Greenhill School, Greenhill Parkway	12.5	0.0	**12.5**		0.0		**0.0**	**-12.5**
		1,911.9	0.0	1,911.9		2,248.3	605.8	2,854.1	942.2
Variance (Approved v Revised CAF)						**336**	**606**	**942**	**942**

BETTER BUSES CAF's		APPROVED CAF's for 2013/14				Revised CAF (including 2014/15 additional funding)			Variation
BU	Description	TOTAL 2013/14 000,s	2014/15 000,s	Total Approved 000's		TOTAL 2013/14 000's	2014/15 000's	Total Revised 000's	Variation 000's
92904	Attercliffe Rd Clearway Changes	23.0	0.0	**23.0**		5.2	15.0	**20.2**	**-2.8**
92907	Chesterfield Rd Clearway Changes	59.4	0.0	**59.4**		20.0	25.0	**45.0**	**-14.4**
92910	Abbeydale Rd Clearway Changes	38.0	0.0	**38.0**		29.0	30.0	**59.0**	**21.0**
92912	Manc Rd / Glossop Rd Enforcement	35.0	0.0	**35.0**		46.3	6.0	**52.3**	**17.3**
93425	Relocatable Camera Enforcement	104.0	0.0	**104.0**		171.6	12.0	**183.6**	**79.6**
93426	Boston Street Bus Gate	49.0	0.0	**49.0**		60.1	20.0	**80.1**	**31.1**
93427	South Lane Bus Gate	143.0	0.0	**143.0**		114.9	9.0	**123.9**	**-19.1**
		451	0	451		447	117	564	113
Variance (Approved v Revised CAF)						**-4**	**117**	**113**	**113**

Annual Treasury Management Review 2013/14

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). During 2013/14 the full Council received the Annual Treasury Strategy whilst Cabinet were presented with the Outturn Report. Reports were also taken to the Cabinet Member for Finance during the year.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

Member training on treasury management issues was provided during the year in order to support members' scrutiny role. A number of training sessions have taken place in January and February 2014.

2. The Economy and Interest Rates

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that the Bank of England Base Rate (the 'Bank Rate') would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to start in quarter 3 2015.

Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields, which impact on the cost of borrowing from the Public Works Loan Board (PWLB), were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality (see section 4). The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance against a background of two credit rating agencies downgrading the UK's AAA credit rating in early 2013. However recent strong economic growth has led – as announced in the 2013 Autumn Statement and the March 2014 Budget – to a cumulative reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018/19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank (ECB) statement in July 2012 that it would do "whatever it takes" to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

3. Overall Treasury Position as at 31 March 2014

At the beginning and the end of 2013/14 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Authority	31 March 2013 Principal	Rate/ Return	31 March 2014 Principal	Rate/ Return
Total debt	*£698m*	*4.6%*	*£688m*	*4.7%*
CFR	*£806m*		*£830m*	
Over / (under) borrowing	*(£108m)*		*(£142m)*	
Total investments	*£138m*	*0.8%*	*£84m*	*0.6%*
Net debt	£560m		£604m	

General Fund	31 March 2013 Principal	Rate/ Return	31 March 2014 Principal	Rate/ Return
Total debt	*£430m*	*4.4%*	*£390m*	*4.6%*
CFR	*£460m*		*£484m*	
Over / (under) borrowing	*(£30m)*		*(£94m)*	
Total investments	*£138m*	*0.8%*	*£84m*	*0.6%*
Net debt	£292m		£306m	

HRA	31 March 2013 Principal	Rate/ Return	31 March 2014 Principal	Rate/ Return
Total debt	*£268m*	*4.9%*	*£298m*	*4.7%*
CFR	*£346m*		*£346m*	
Over / (under) borrowing	*(£78m)*		*(£48m)*	
Total investments	*£0m*	*0%*	*£0m*	*0%*
Net debt	£268m		£298m	

4. The Strategy for 2013/14

The expectation for interest rates within the strategy for 2013/14 anticipated a low but rising Bank Rate (starting in quarter 4 of 2014), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the US Federal Reserve (the “Fed”). This duly started in December 2013 and the US FOMC (the Federal Open Market Committee (FOMC) is a committee within the Federal Reserve which makes key decisions about interest rates and the growth of the United States money supply) adopted a future course of monthly reductions of $10bn (from a starting position of $85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine. This caused a flight into the quality and relative safety of UK gilts causing gilt rates to dip down, and thus moderate the increase in cost of any new borrowing.

With the dip in gilt rates and the likelihood of an interest rate increase deferred compared to our original expectations, the policy of avoiding new borrowing by running down spare cash balances has served well over the past few years. However, the Council ameliorated a significant element of its exposure through its under borrowing position during the year by taking on £37m of loans for the HRA.

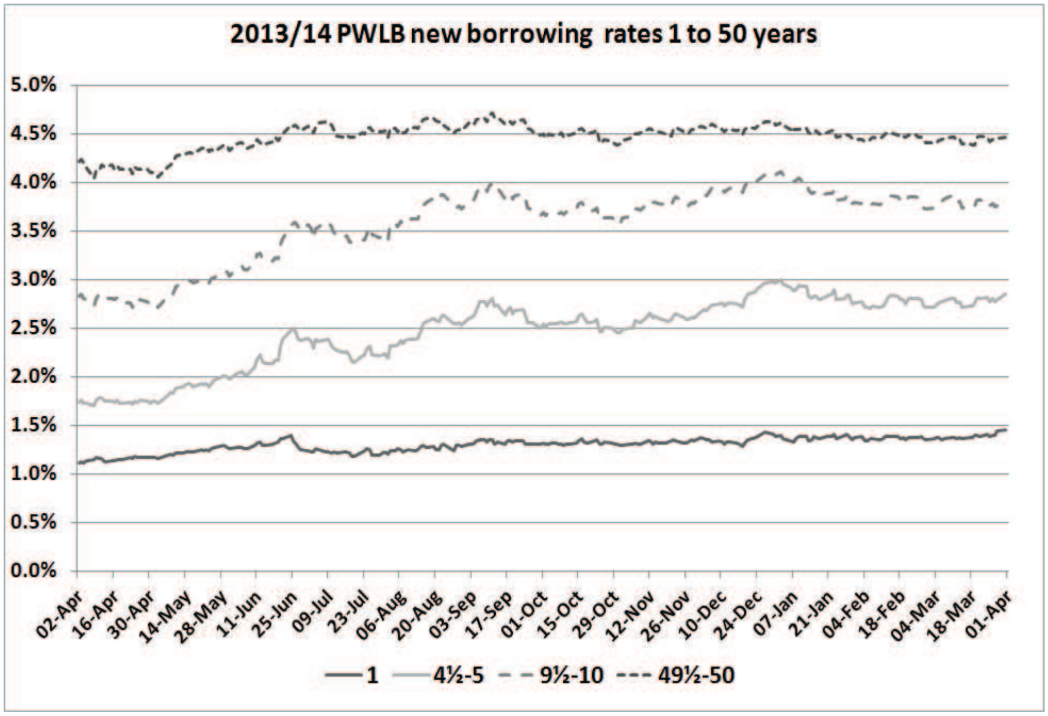
5. The Borrowing Requirement and Debt

The Council’s underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The table below shows the outturn for 2012/13 and 2013/14 and the 2013/14 budget position including PFI liabilities.

	31 March 2013 Actual	31 March 2014 Budget	31 March 2014 Actual
CFR General Fund (£m)	£751m	£795m	£820m
CFR HRA (£m)	£346m	£346m	£346m
Total CFR	£1,097m	£1,141m	£1,166m

6. Borrowing Rates in 2013/14

PWLB borrowing rates - the graph below shows how PWLB certainty rates have risen from historically very low levels during the year.



7. Borrowing Outturn for 2013/14

Borrowing – during the year the Council borrowed £37m for the HRA, as shown in the table below.

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£7.5m	Fixed interest rate	4.10%	16 years
PWLB	£7.5m	Fixed interest rate	4.14%	17 years
PWLB	£10m	Fixed interest rate	4.07%	15 years
PWLB	£1m	Fixed interest rate	4.16%	16 years
PWLB	£2m	Fixed interest rate	4.20%	17 years
PWLB	£9m	Fixed interest rate	4.23%	18 years

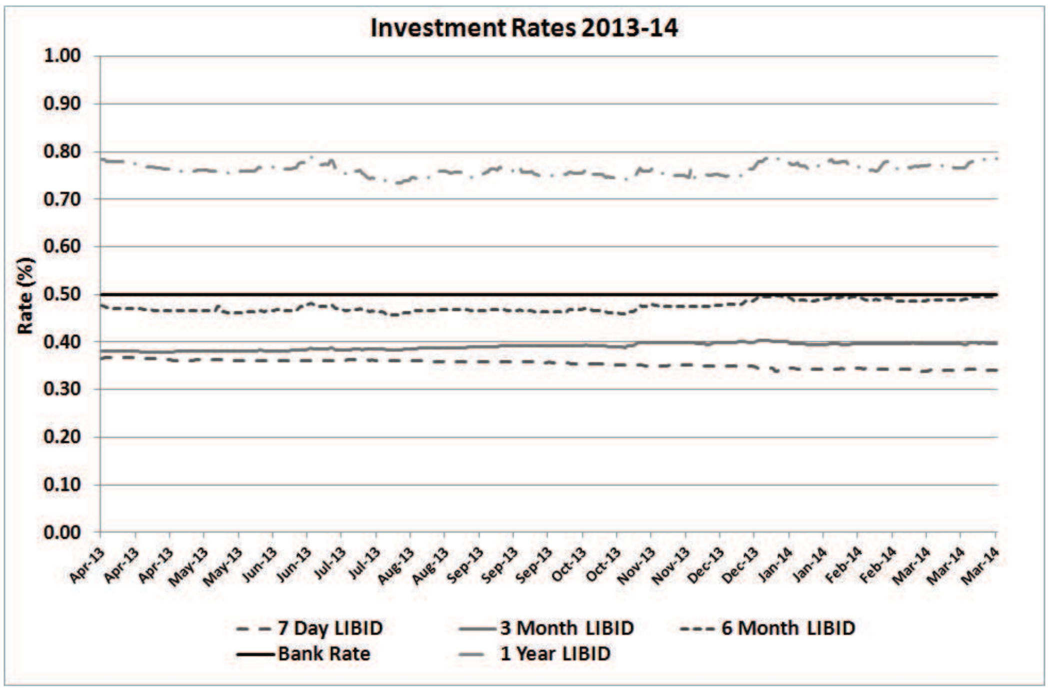
The average rate of new long term borrowing was 4.14% which compares favourably to 10.3% on the long term borrowing it replaced and the overall average of 4.6%.

All of these additional loans were taken on for the HRA to continue to reduce the under-borrowing position. The majority of which relates to the repayment of internal "loans" afforded to the HRA by the General Fund as part of the transition to a two-pool debt approach following HRA self-financing.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Rates in 2013/14

The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Whilst the market expected the central banks to begin to withdraw quantitative easing measures and to start to increase bank base rates, the policy remained unchanged throughout the 2013/14 financial year. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



LIBID is the London Interbank Bid Rate which reflects the average interest rate which major London banks borrow Eurocurrency deposits from other banks and is a key indicator of interest rates on short term deposits.

9. Investment Outturn for 2013/14

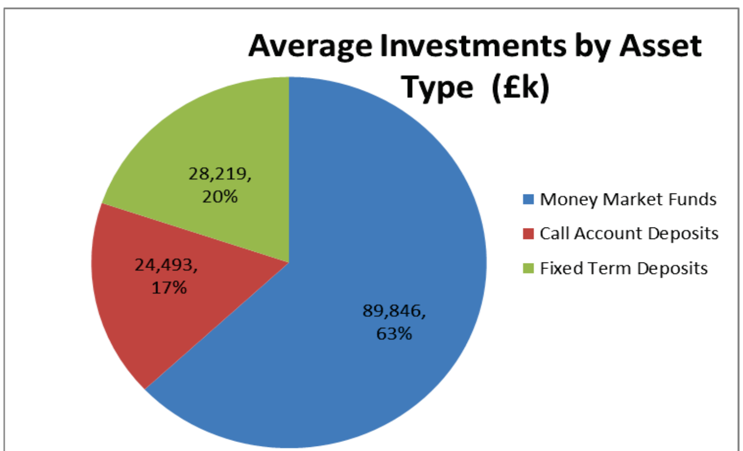
Investment Policy – the Council's investment policy, which is governed by Central Government guidance, is set out in the annual investment strategy approved by full Council in March each year. This policy outlines the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

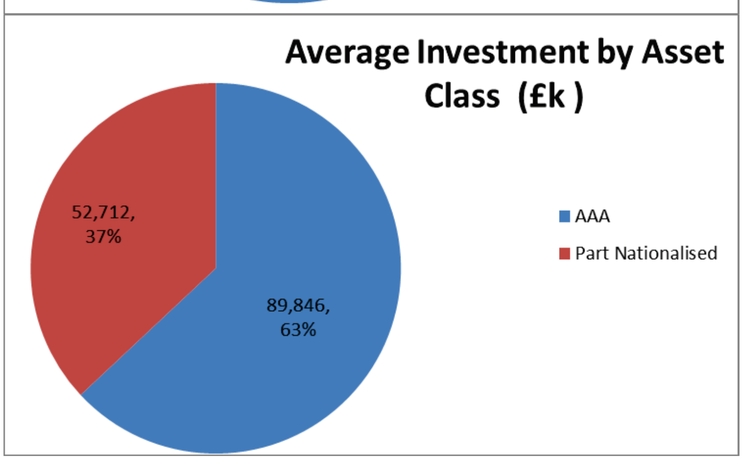
The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - the Council maintained an average balance of £143m of internally managed funds. The internally managed funds earned an average rate of return of 0.56% against a budgeted return of 0.50%.

The Council would not normally plan to have such high cash balances but the position was affected by re-profiling of the capital programme.

The pie charts below shows that we split our investments over a range of investment options, including AAA rated Money Market Funds and Fixed Term or Call accounts deposits with part nationalised banks.





Throughout the year we only invested funds with assets of over £1bn and monitored who these funds invested with themselves. Money market funds are an attractive counterparty when there is significant counterparty risk because they only invest in the most secure assets whilst they allow us to remove our investment day-by-day should we need to.

Appendix 1: Prudential and Treasury Indicators

During 2013/14, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2012/13 Actual £000	2013/14 Original £000	2013/14 Actual £000
Capital expenditure • General Fund • HRA • Total	74,754 40,930 115,684	83,570 75,125 158,695	82,283 40,506 122,789
Capital Financing Requirement: • General Fund • HRA • Total	751,559 345,564 1,097,123	794,757 345,586 1,140,343	819,784 346,209 1,165,993
Gross borrowing	989,191	1,071,071	1,023,604
External debt	851,306	1,071,071	939,176
Investments • Longer than 1 year • Under 1 year • Total	20,000 117,885 137,885	Nil Nil Nil	Nil 84,428 84,428

Commentary

Although the Council's external debt has increased by around £88m during the year, our overall need for borrowing which is represented by the Capital Financing Requirement has only increased by £69m.

This is a result of a decision taken by the Council in prior years to use surplus cash and reserves and grants in advance of need. Using this cash has meant that the Council could avoid taking on new loans, and thus adding to its external debt, where it would have otherwise needed to. In turn, this has saved the Council paying interest costs.

This strategy is intended to be used in the shorter term as the cash will be needed for its original intended purpose. When this arises, the Council would be required to raise cash from loans or its revenue resources. Should loans need to be raised, it is key to do so when the cost of borrowing is as cheap as possible and before any interest rate rises.

During the year, officers saw an opportunity to manage this issue in a cost effective way. The Council took on a number of new loans, replacing the cash it had previously borrowed from these 'internal' sources. The strategy allowed the Council to reduce its internal borrowing position and the associated risks it brings.

However, following the above strategy combined with an under spend on the capital programme meant that the Council continued to hold large sums of cash on deposit throughout the year. These deposits were placed with an array of AAA-rated, instant access money market funds and fixed-term and call account deposits with part-nationalised banks. This investment policy meant that our deposits were very safe but deposit returns were low (at just above the Bank Rate of 0.50%).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2012/13) plus the estimates of any additional capital financing requirement for the current (2013/14) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2013/14
Authorised limit	£1,300m
Maximum gross borrowing position	£1,036m
Operational boundary	£1,200m
Average gross borrowing position	£1,003m

Ratio of financing costs to net revenue stream	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
General Fund	13.54%	16.50%	13.68%
HRA	10.22%	11.71%	9.63%

Incremental impact of capital investment decisions	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
Increase in council tax (band D) per annum *	£1.26	£15.33	£10.22
Increase in average housing rent per week (council dwellings only)	£0.00	£0.03	£0.01

* The increase in Council Tax (band D) per annum for 2013/14 is lower than the 2013/14 limit because the expected borrowing was around 40% lower than forecast.

TABLE 1	31 March 2013 Principal	Rate/ Return	Average Life (Yrs)	31 March 2014 Principal	Rate/ Return	Average Life (Yrs)
Fixed rate funding:						
-PWLB	£328m	5%	32	£350m	5%	23
-Market	£140m	5%	49	£140m	5%	48
- Local Authorities	£52m	2%	1	£20m	2%	1
Variable rate funding:						
-PWLB	£0m	0%	-	£0m	0%	-
-Market	£178m	4%	52	£178m	5%	51
Credit Liabilities:						
PFI Liabilities	£291m	11%		£336m	9%	
Total debt	***£989m***	***6%***	***30***	***£1,024m***	***6%***	***30***
CFR	***£1,097m***			***£1,166m***		
Over/ (under) borrowing	***(£108m)***			***(£142m)***		
Total investments	***£138m***	***0.8%***	***<1***	***£84m***	***.6%***	***<1***
Net debt	**£851m**			**£940m**		

The maturity structure of the debt portfolio was as follows:

	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
Under 12 months	32%	35%	30%
12 months and within 24 months	4%	15%	1%
24 months and within 5 years	1%	30%	1%
5 years and within 10 years	2%	40%	2%
10 years and above	60%	100%	66%

Included in the 'Under 12 month' figure are bank loans which have a "call option" that allows the bank to either re-set the interest rate or allow us to repay the loan every six months. As these loans could be repayable in six months' time, we show them as being due under a year.

The maturity structure of the investment portfolio was as follows:

	2012/13 Actual £000	2013/14 Original £000	2013/14 Actual £000
Investments			
Longer than 1 year	20,000	0	0
Under 1 year	117,885	0	84,428
Total	137,885	0	84,428

The exposure to fixed and variable rates was as follows:

	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
Fixed rate debt	£811m		£845m
Fixed rate investments	-£138m		-£60m
Net fixed rate exposure	**£673m**	**£940m**	**£785m**
Variable rate debt	£178m		£178m
Variable rate investments	£0m		-£14m
Net variable rate exposure	**£178m**	**£350m**	**£164m**

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