REVENUE BUDGET & CAPITAL PROGRAMME MONITORING AS AT 30 JUNE 2017

Purpose of the Report

1. This report provides the Month 3 monitoring statement on the City Council's Revenue Budget and Capital Programme for June 2017. The first section covers Revenue Budget Monitoring, and the Capital Programme is reported at paragraph 19.

REVENUE BUDGET MONITORING

Summary

2. As at month 3, the Council is showing a forecast overspend of £21.2m. It should be stressed that this is prior to mitigating savings that are currently being identified by Portfolios to reduce this overspend by year end.

3. The overall Council position is summarised in the table below.

Portfolio	FY Outturn £000s	FY Budget £000s	FY Variance £000s
PEOPLE	224,309	204,523	19,786
PLACE	152,422	151,815	607
POLICY, PERFORMANCE & COMMUN	2,300	2,363	(63)
RESOURCES	55,123	54,214	909
CORPORATE	(412,956)	(412,915)	(41)
GRAND TOTAL	**21,198**	**-**	**21,198**

4. In terms of the month 3 forecast overspend position of £21.2m, the key reasons are:
   - **People** are forecasting an increase in expenditure of £19.8m. Within this Portfolio, Childrens is forecasting a £8.4m overspend (£6.0m relating to Placements), and Adults is forecasting a £11.4m overspend (£8.4m of which relating to Learning Disabilities Purchasing). This position is described in detail in **Appendix 1**.
   - **Place** are forecasting an increase in expenditure of £0.6m, primarily due to slippage in planned savings of £1.0m within the "Business Like Place" transformational review and the Streets Ahead Programme, offset by other smaller movements.
   - **Resources** are forecasting an increase in expenditure of £0.9m due mainly to lower than anticipated contract savings of £0.7m on the REED contract and the Kier insourcing.

5. The Month 4 (July 2017) figures are now available as well. The overall overspend has reduced by £1.6m, to a forecast £19.6m overspend. The only significant movements relate to the **People** Portfolio.
    - The **People** Portfolio forecast overspend has reduced by £1.5m to £18.2m, due to the release of £5.0m of the BCF funding announced by the Government in spring 2017. This has improved the forecast overspend in Adults by £4.7m from £11.3m to £6.6m;
    - Offsetting this improvement, Childrens have revised their forecast overspend upwards by £3.2m. Their forecast overspend is now £11.6m (up from £8.4m).

6. The cumulative effect of funding cuts due to the national austerity programme, combined with emerging social care pressures and the challenge of securing funding from Health are making the Council's current financial predicament extremely difficult. Based on the current trajectory, and in spite of a major review of corporate budgets, it would appear highly likely that the Council is going to overspend this year. In response the Council is undertaking a medium term programme to transform social care, with the intention that budgets will be rebased and rebalanced whilst key services to users are protected. In the interim, recovery plans will be presented to Council in September 2017 to balance the budget for 2017/18. This year's position should be seen in this wider context.

7. Full details of all reductions in spend and overspends within Portfolios are detailed in **Appendix 1**.

Approval Requests

8. The People Portfolio is looking to gain approval to spend a proportion of the new Better Care Fund money on acquiring and running the new case management system Liquidlogic. The total cost of implementing the system is circa £7.7m of which £2.9m is already approved from capital grants. These capital funds are being used to build and procure the system.

9. The gross revenue cost of implementing the system is around £4.8m. Part of this cost will be met by savings realised during implementation (£2.2m) and part was already met in 2016/17 (£0.4m). The benefits are from the cessation of other systems currently being used to produce management information on Adult Social Care and Children's Social Care. As a proportion of the costs of the project have already been met in 2016/17 at £425k, the request for approval per the appendix is the remaining anticipated costs of £2.2m.

10. **Appendix 7** provides some detail around the financial cost.

Public Health

11. The Public Health ring-fenced grant is currently forecasting a £294k underspend against the original grant allocation. Further details of the forecast outturn position on Public Health are reported in **Appendix 2**.

Housing Revenue Account

12. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme. As at month 3 the full year outturn position is an improvement of £33k from this budgeted position.

13. Main areas contributing to the outturn include a reduction in income of £632k primarily as a result of a revision to the method by which the bad debt provision is calculated and a slightly higher level of vacant properties offset by savings in operational costs to leave the overall position £33k better. We anticipate additional costs may arise as a result of a review of building standards regulations following the Grenfell Tower tragedy. Work is in hand to monitor and assess the implications of developments as they unfold. HRA and related capital expenditure will be re-profiled accordingly, and will be reported in future budget monitoring reports.

14. In addition to the main HRA account, there is a £196k surplus on the ring fenced Community Heating account.

15. Further details of the HRA forecast outturn can be found in **Appendix 3** of this report.

Collection Fund

16. As at the end of Quarter 1, the local share of the Collection Fund Income Stream is forecasting an overall in year deficit of £0.4m made up of a £1.3m surplus on Council Tax and a £1.7m deficit on Business Rates.

17. Further details about the Quarter 1 performance of the Collection Fund can be found in **Appendix 4**.

Corporate Risk Register

18. 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 **Appendix 5** along with any actions being undertaken to manage each of the risks.

Capital Summary

19. The approved capital programme budget for 2017/18 is £289.7m. The current forecast outturn is £285.7m, representing £4.0m of slippage (1.4% of the approved budget). The majority of the difference is in the Housing programme which is forecasting to be £4.0m below budget by the year end.

20. Further details of the Capital Programme monitoring are reported in **Appendix 6**.

Implications of this Report

Financial implications

21. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2017/18, and as such it does not make any recommendations which have additional financial implications for the City Council.

Equal opportunities implications

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

Legal implications

23. There are no specific legal implications arising from the recommendations in this report.

Property implications

24. 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

25. Cabinet are asked to:
    (a) Note the updated information and management actions provided by this report on the 2017/18 Revenue Budget position.
    (b) Consider for approval the request for revenue funding in **Appendix 7.**

Reasons for Recommendations

26. To record formally changes to the Revenue Budget and the Capital Programme and gain Member approval for changes in line with Financial Regulations.

Alternative options considered

27. 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.

Dave Phillips
Head of Strategic Finance

PORTFOLIO REVENUE BUDGET MONITORING AS AT 30 JUNE 2017

People

Summary

1. As at quarter 1, the Portfolio is forecasting a full year outturn of an overspend of **£19.8m** on **Cash Limit budgets** and an overspend of **£1.9m** on **DSG budgets**. The **key** reasons for the outturn position on the cash limit are:

Learning Disabilities Purchasing (forecast overspend of £8.4m):

- Purchasing LD is forecasting an overspend of £8.4m. This overspend is made up of £6.4m of pressures relating to existing clients packages, £1.6m pressure relating to the full year impact of placement panel decisions made in late 2016/17, £1.4m of assumed growth and demand pressures for the rest of the year and £839k fee increases. This overspend has been reduced by anticipated successful savings of £1.5m and £378k over recovery on the income target.

Older People Purchasing (overspend of £533k):

- Mainly due to increased activity - Nursing provision £613k overspend, Home Support £400k overspend and Residential Care overspend £87k. There is a £49k overspend on Partnership contracts and £36k on Supported Living placements. These overspends are offset to some extent by over-achievement of income of £672k.

Mental Health Purchasing (overspend of £1.819m):

- An overspend against Commissioned Mental Health Services of £1.819m. This is due to unachieved savings £1.67m agreed between SCC and the CCG as part of the new way of working and £150k additional costs. There has been some reductions in package costs this month but these have not been significant enough to reduce the overspend down to budgeted position.

Children & Families (forecast overspend of £8.0m)

- Placement budgets - £6m forecast overspend due to increase in demands, particularly in high cost placements and additional support, reflecting the complexities of need for some children in care.

- Fieldwork Services - £1.1m forecast overspend mainly due to a forecast overspend of £646k in non-staffing budgets, due to increased transport costs and contact time for children in care.

Business Strategy (forecast overspend of £405k)

- Transport – forecast overspend of £439k in the transport budgets, this is due to continued increase in demand and increases in costs.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
PIPS	4,717	4,878	(161)
CARE AND SUPPORT	110,462	100,749	9,713
COMMISSIONING	26,486	24,715	1,771
COMMUNITY SERVICES	5,996	5,952	44
CHILDREN & FAMILIES	65,194	57,221	7,973
INCLUSION & LEARNING SERVICES	(11)	(17)	6
LIFELONG LEARN, SKILL & COMMUN	6,488	6,452	36
BUSINESS STRATEGY	4,978	4,573	405
Grand Total	224,309	204,523	19,786

DSG

2. The following is a summary of the position on DSG budgets at month 3:

	FY Variance Month 3 £000
Business Strategy	411
Children and Families	55
Inclusion and Learning Services	1,405
Lifelong Learning, Skills and Communities	45
	1,916

3. The reasons for the outturn position on the DSG position are included in the commentary below.

Commentary

4. The following commentary reports on the main forecast variances at month 3 other than the ones highlighted in section 1.

Care and Support

5. The remaining areas of Care & Support are forecasting an overspend of £780k. This is broken down as follows:-

- Access Prevention & Reablement is forecasting £300k overspend as a result of pay costs for agency staff
- LD Staffing is forecasts £33k overspend on Assessment and Care Management staffing.
- LD Provider Services is forecasting an overspend of £258k due to unachieved savings on Short Breaks £69k, overspend on Supported Living salaries £149k and overspend on Day Services of £40k.
- Contributions to Care is forecasting an overspend of £63k due to £33k additional costs on staffing budgets and an overspend against Executor Services £30k.
- Long Term Care staffing is forecasting £36k overspend due to additional staffing and IT costs.
- Provider Services reports an expected £238k overspend, mainly due to the underachievement of income in the City Wide Care Alarm service partly offset by staff savings in Community Support Services and savings in Carer payments for Adult Placement Sharing Lives service.
- Safeguarding is forecasting a £95k under spend on staffing,

- Practice Development is reporting a forecast £58k under spend on staffing due to a vacancy held.

Commissioning

6. Mental Health Commissioning is reporting an under spend against Older People's Mental Health due to the new commissioning arrangements following the closure of Hurlfield £312k.
7. Social Care Commissioning Service forecasts an overspend of £173k predominantly due to increased demand on the British Red Cross Contract for Independent Living Solutions £257k offset by savings on People Keeping Well £43k.
8. Public Health Drug and Alcohol (DACT) service is overspending by £126k. The majority of this is due to a forecast overspend on Contract Drug Costs £74k and Non-Contract Treatment Costs £36k.
9. Housing Related Support is returning an under spend of £44k due to delay in contract renewals.

Community Services

10. Community Services is forecasting £66k overspend as a result of:-
    - Libraries area which is forecasting a £20k underspend due to new income.
    - Locality Management is over spent by £85k due to increased payments over budget on voluntary sector grants.

PIPS

11. PIPS is forecasting £161k under spend as a result of:-
    - Executive & Portfolio Wide Services reports a £97k saving on salary of Director post.
    - Business Architecture and Infrastructure reports an overspend of £45k on IT.
    - Planning, Strategy and Improvement reports an under spend of £109k on pay.

Children & Families

12. A forecast £8.0m overspend (shown in the table above) relating to cash limit and a £55k overspend on DSG.
13. In addition to the forecast overspends on placements and fieldwork services detailed above in key reasons, there are also the following variances to budget:

- Early Intervention and Prevention - £409k forecast reduction in spend which reflects savings on contracts.

This is offset by:

- Fieldwork Services – In addition to the overspend on non-staffing budgets, the service is also forecasting a £296k overspend on specialist children's services as a result of the funding from the Home Office being insufficient to cover the direct costs of the present level of placements. The service is also forecast a £178k overspend on Legal fees due to an increase in the number of cases.
- Health Strategy - £610k forecast overspend, this reflects a £799k forecast overspend on Shortbreaks and Direct Payments due to the delays in anticipated savings.
- Provider Services - £785k forecast overspend this includes a forecast overspend on Children's residential homes, including £556k due to delays in anticipated savings on integrated residential and disability services with health.

14. There are no significant variances in the DSG budgets for Children and Families.

Inclusion & Learning Service

15. A forecast £6k overspend (shown in the table above) relating to cash limit and a £1.4k overspend on DSG.
16. There are no significant variances in the cash limit budgets for ILS.
17. The main reasons for the forecast overspend in DSG is due to the following:
    - SEND - £937k forecast overspend, there is increasing demand in Post 16 SEND provision and also an increase in high cost independent specialist placements (ISP) This is being addressed through the SEND Change Programme.
    - Redesign of Education Services - £430k forecast overspend due to delays in anticipated savings. This is being addressed through the Redesign of Education Services Change Programme.

Lifelong Learning & Skills

18. A forecast £36k overspend (shown in the table above) relating to cash limit and a £45k overspend on DSG.
19. There are no significant variances at month 3 to report.

Business Strategy

20. A forecast £405k overspend (shown in the table above) relating to cash limit and a £411k overspend on DSG.

21. The main reasons for the variance in both cash limit and DSG is due to a £632k forecast overspend in the transport budgets. This is due to continued increases in demand and increases in costs, especially in the taxi contract.

22. There is also a £250k forecast overspend in DSG on the Special School Complex Case fund, due to anticipated additional placement funding required from September 2017.

Place Portfolio

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
BUSINESS STRATEGY & REGULATIO	32,038	31,136	902
MAJOR PROJECTS	122	124	(2)
CULTURE & ENVIRONMENT	88,398	88,839	(441)
HOUSING GENERAL FUND	3,758	3,876	(117)
CITY GROWTH	28,105	27,840	265
GRAND TOTAL	**152,422**	**151,815**	**607**

Summary

23. As at month 3 the Portfolio is forecasting a full year outturn of £607k over budget. The key reasons for the forecast outturn position are:

- Business Strategy & Regulation is forecasting £902k over budget, with key variances being slippage in planned savings on the ‘Business Like Place’ transformational review (£505k) and additional cost pressures on the Waste Management service due to economic factors such as the low re-sale price of recyclates (£441k).

- Culture & Environment is forecasting £441k under budget, with key variances being slippage in planned savings on the Streets Ahead Programme (£464k) offset by other contract cost reductions (£742k).

- Housing General Fund is forecasting £117k under budget with key variances being a lower uptake of small grants on the Local Assistance scheme (£80k) and savings on overall staffing budgets.

- City Growth is forecasting £265k over budget, with key variances being slippage in planned savings on the ‘Business Like Place’ transformational review (£495k), offset to some extent from cost savings, including vacancy management across the service (£230k).

Resources Portfolio

Summary

24. As at month 3 the Portfolio is forecasting a full year outturn of an over spend of £909k. The key reasons for the forecast outturn position are:

- An over spend of £182k on Business Change and Information Solutions mainly due to spend on subscriptions to Gartner and Socrata.
- An over spend of £796k on Commercial Services (Savings) due to £726k lower contract savings and advance payment discounts following renegotiation of Reed contract and Kier Insourcing with the remaining £70k overspend being the as yet unidentified Resources wide budget target savings, £200k of which has been achieved from lower Former Employee pension costs.
- An over spend of £397k on Customer Services due to £150k of 2016/17 BIPs savings for the Customer Experience programme still to be identified and delays in implementing the 2017/18 BIPs saving of £141k, the MER scheme for which has been launched and a stop put on further recruitment. There is an overall over spend on Employees of £360k and under recovery of income of £263k which is being investigated.

Offset by:

- A reduction in spend of £136k on Human Resources due mainly to the over recovery of income in relation to Project Support charges and an under spend on Graduate Trainees.
- A reduction in spend of £206k on Transport and Facilities Management due to budget over provision in respect of Howden House PFI unitary charge payments.
- A reduction in spend of £131k on Central Costs due mainly from reduced numbers requiring funding in relation to Former Employee Pensions and income from H drive and mailbox charges.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
BUSINESS CHANGE & INFORMATION	1,325	1,143	182
COMMERCIAL SERVICES (SAVINGS)	(1,442)	(2,238)	796
CUSTOMER SERVICES	5,590	5,193	397
FINANCE & COMMERCIAL SERVICES	5,376	5,386	(10)
HUMAN RESOURCES	3,541	3,677	(136)
LEGAL SERVICES	3,590	3,568	22
RESOURCES MANAGEMENT & PLAN	182	187	(5)
TRANSPORT AND FACILITIES MGT	17,728	17,934	(206)
TOTAL	35,890	34,850	1,040
CENTRAL COSTS	18,827	18,958	(131)
HOUSING BENEFIT	406	406	0
GRAND TOTAL	**55,123**	**54,214**	**909**

Policy, Performance and Communications Portfolio

Summary

25. As at month 3 the Portfolio is forecasting a full year outturn of an under spend of £63k.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
ACCOUNTABLE BODY ORGANISATIO	0	0	0
POLICY, PERFORMANCE & COMMUN	2,435	2,498	(63)
PUBLIC HEALTH	(135)	(135)	(0)
GRAND TOTAL	**2,300**	**2,363**	**(63)**

Corporate

Summary

26. As at month 3, the Corporate portfolio is forecasting a broadly balanced position at full year outturn.

- Corporate Expenditure: Corporate wide budgets that are not allocated to individual services / portfolios, including capital financing costs and the provision for redundancy / severance costs.
- Corporate income: Revenue Support Grant, locally retained business rates and Council tax income, some specific grant income and contributions to/from reserves.

Financial Results

27. The table below shows the items which are classified as Corporate and which include:

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
CAPITAL FINANCING	37,856	37,896	(40)
CORPORATE ITEMS	(450,812)	(450,811)	(1)
GRAND TOTAL	(412,956)	(412,915)	(41)

PUBLIC HEALTH BUDGET MONITORING AS AT

30th June 2017

Purpose of the Report

1. To report on the 2017/18 Public Health grant spend across the Council for the month ending 30th June 2017.
2. The report provides details of the full year spend of Public Health grant compared to budget.
3. The net reported position for each portfolio/service area would normally be zero as public health spend is matched by a draw down of public health grant. For the purposes of this report, and in order to identify where corrective action may be necessary, we have shown actual expenditure compared to budget where there is an underspend position.

Summary

4. At month 3 the overall position was an underspend of (£294k) which is summarised in the table below.

Portfolio	Forecast Full Year Expenditure	Full Year Expenditure Budget	Full Year Variance as at M3
CYPF	16,935	16,935	0
COMMUNITIES	11,600	11,696	(96)
PLACE	2,597	2,632	(35)
DIRECTOR OF PH	1,938	2,101	(163)
Total	33,070	33,364	(294)

5. Key reasons for the forecast positions spend are:
    - (£96k) underspend in Communites as a result of underspending in Mental Health Commissioning Partnerships and Grants.
    - (£35k) underspend in Place mainly due to implementation of the new Stopping Smoking Contract
    - (£163k) underspend in Director of Public Health as a result of staffing vacancies and liabilities that have not yet materialised on GP Healthchecks Contracts.

Place Portfolio

EXECUTIVE SUMMARY

HRA Revenue Budget Monitoring 2017/18– as at June

Purpose of this Report

1. To provide a summary report on the HRA 2017/18 revenue budget for the month ending 30 June 2017, and agree any actions necessary.

Summary

2. The HRA Business Plan is based on the principle of ensuring that investment and services required for council housing is met by income raised in the HRA.

3. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme. As at month 3 the full year outturn position is an improvement of £33k from this budgeted position.

4. Main areas influencing the forecast outturn include lower than budgeted rental income, repairs and maintenance costs including additional fire safety work and some items which may be of a capital nature .The position will be monitored throughout the year. Projected savings on overall operational costs leave the account a forecast £33k better off.

Financial Results

Housing Revenue Account (excluding Community Heating)	FY Outturn £000's	FY Budget £000's	FY Variance £000's
1.NET INCOME DWELLINGS	(144,288)	(144,920)	632
2.OTHER INCOME	(6,421)	(6,407)	(14)
3. REPAIRS & MAINTENANCE	33,044	32,270	774
4.DEPRECIATION-CAP FUND PROG	39,957	39,957	-
5.TENANT SERVICES	51,782	53,207	(1,425)
6.INTEREST ON BORROWING	15,269	15,269	-
Total	**(10,657)**	**(10,624)**	**(33)**
7.CONTRIBUTION TO CAP PROG	10,657	10,624	33

Community Heating

5. The budgeted position for Community Heating is a draw down from Community Heating reserves of £237k. As at month 3 the position is a draw down from reserves of £41k, an improvement of £196k. This is mainly due to lower than expected usage.

Community Heating	FY Outturn £000's	FY Budget £000's	FY Variance £000's
Income	(2,474)	(2,448)	(26)
Expenditure	2,515	2,685	(170)
Total	**41**	**237**	**(196)**

Housing Revenue Account Risks

6. 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 and changes to Housing Benefits, the Government has announced a number of further changes in the Housing and Planning Act and Welfare Reform and Work Act. These include a revision to social housing rent policy, which will reduce rents until March 2020. This will have a considerable impact on the resources available to the HRA. In addition, other planned Government changes in relation to fixed term tenancies and levy proposals in the Housing and Planning Act will impact on both tenants and the HRA business plan. Work is continually ongoing to assess the financial impact of these. Other identified risks to the HRA are:

- **Welfare Reform /Universal Credit**: the Government's welfare reform continues to be a significant risk to the HRA. The risk to income collection will continue to become increasingly difficult as Universal Credit and continues to be rolled out. Mitigations are in place such as funding additional officers to manage the impacts of welfare changes on affected tenants. Work is continually ongoing analysing the financial risk to the business plan.

- **Interest rates:** fluctuations in the future levels of interest rates have always been recognised as a risk to the HRA. These are managed through the Council's Treasury Management Strategy.

- **Repairs and Maintenance:** existing and emerging risks within the revenue repairs budget include unexpected increased demand (for example due to adverse weather conditions) There may be additional costs resulting from a review of building standards regulations following the Grenfell Tower tragedy. Work is in hand to monitor and asses the implications of developments as they unfold.

7. The HRA business plan is regularly reviewed along with expenditure plans to ensure flexibility to respond to the expected Housing and Planning Act Regulations.

Appendix 4

Collection Fund 2017/18 – Quarter 1 monitoring

Summary

1. In 2017/18 approximately £287.8m of SCC expenditure is forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

2. The Government receives 50% of the Business Rates collected (the Central Share) and uses this to finance grant allocations to local authorities. The Fire Authority receives 1% and the Council retain the remaining 49% as below.

3. Council Tax is distributed approximately 86% to SCC, 10% to the Police and Crime Commissioners Office and 4% to the Fire Authority. The SCC share is detailed below.

Income Stream	Budget 2017/18 £m	Year to Date £m	Forecast Year End Position £m	Variance £m
Council Tax	-191.0	-54.3	-192.3	-1.3
Business Rates Locally Retained	-96.7	-35.0	-95.0	1.7
TOTAL	**-287.7**	**-89.3**	**-287.3**	**0.4**
RSG/Business Rates Top Up Grant	-107.4	-26.8	-107.4	0.0
TOTAL	**-395.1**	**-116.1**	**-394.7**	**0.4**

4. As at the end of Quarter 1, the local share of the Collection Fund Income Stream is forecasting an overall in-year deficit of £0.4m made up of a £1.3m surplus on Council Tax and a £1.7m deficit on Business Rates.

Council Tax

5. The forecast year end position for Council Tax is a surplus of £1.3m. This is made up of a £0.4m surplus on Gross Income chargeable to dwellings due to a growth in the Council Tax Base (CTB) forecasts and a £0.9m surplus on exemptions and reductions.

Business Rates

6. The forecast year end position for Business Rates is a £3.5m deficit of which Sheffield's share is £1.7m. The £3.5m deficit is caused by the net effect of a year to date deficit on Gross Rates Income Yield of £9.9m against a surplus on Reliefs of £6.4m. More in-depth analysis of the business rates position can be found below.

Collection Fund - Business Rates	**Budget 2017/18 £m**	**Year to Date £m**	**Forecast Year End Position £m**	**Variance £m**
Gross Business Rates income yield	-255.2	-245.3	-245.3	9.9
LESS Estimated Reliefs	30.5	25.9	27.2	-3.3
Losses on Collection	3.0	1.1	3.0	0.0
Losses on Appeals re Current Year Bills	9.8	0.3	9.8	0.0
Increase (Decrease) due to appeals / bad debt provisions	0.0	0.0	0.0	0.0
Net Collectable Business rates	**-211.9**	**-218.0**	**-205.3**	**6.6**
Transitional Protection Payments due from Authority	13.9	10.8	10.8	-3.1
Cost of Collection allowance	0.8	0.8	0.8	0.0
Non Domestic Rating Income	**-197.2**	**-206.4**	**-193.7**	**3.5**
Appropriation of net business rates:				
49.0% Sheffield City Council	-96.7	-101.3	-95.0	1.7
1.0% SY Fire Authority	-2.0	-2.0	-2.0	0.0
49.5% Government	-97.5	-102.1	-95.8	1.7
0.5% Designated Areas	-1.0	-1.0	-0.9	-0.1
Total Appropriations	**-197.2**	**-206.4**	**-193.7**	**3.5**

Gross Rates Income Yield

7. The Gross Business Rates Income Yield has, to date, decreased by £9.9 compared to total budget. This is significantly under the budgeted position primarily due to a large number of appeals totalling £12.5m being settled in the first quarter relating to the 2010 Valuation list, and a reduction of £1m on one property's rateable value between the budget being prepared and the start of 2017/18.

Reliefs and Discounts

Reliefs	Budget 2017/18 £m	Year to Date £m	Forecast Year-End Outturn £m	Variance £m
Small Business Rates Relief	10.9	10.6	10.6	-0.3
Transitional Relief	-13.9	-10.8	-10.8	3.1
Mandatory Charity Relief	22.4	21.0	21.0	-1.4
Discretionary Relief	1.3	0.3	0.3	-1.0
Empty Property / Statutory Exemption	9.3	5.1	5.1	-4.2
Partly Occupied Premises Relief	0.3	-0.3	-0.3	-0.7
New discretionary reliefs	0.1	0.0	1.3	1.2
	30.5	**25.9**	**27.2**	**-3.3**

8. Most reliefs and discounts are generally awarded in full at the point of billing at the start of the year. The total level of reliefs awarded to the end of quarter 1 amounts to £25.9m which is £4.6m below the £30.5m in the budget. These are expected to rise to £27.2m by year end due to the additional reliefs announced in the Spring Budget which have not yet come on line.

9. The most significant variations are in relation to Empty Property Reliefs and Transitional Relief. The Empty Property Relief is currently £4.2m under budget, due to the removal of a number of properties from the list that would have qualified for Empty Property Reliefs. Transitional Relief was calculated on a certain level of Gross RV which has lowered since these initial calculations. Transitional relief is based on the change in Gross rates from 2016/17 to 2017/18 and is subject to fluctuation dependant on appeals being granted in either year.

10. Transitional relief is granted to limit the impact of a change in a hereditaments financial liability following a Revaluation. This means the liability changes are phased in gradually along predefined maximum increases/decreases as set out by the Government. The surplus in the transitional relief is a due to a smaller than anticipated number of hereditaments eligible for a cap on the reduction in their rates payable. This is currently under investigation to determine if this will remain throughout the year.

11. There is a forecast deficit on New Discretionary reliefs of £1.2m due to the introduction of the new business rate reliefs in the spring budget. These will be funded by S31 grants later in the year.

Appeals

12. Appeals are notoriously difficult to forecast due to the volatility of the process. The 2017/18 Council budget anticipated £9.8m of refunds resulting from appeals. This was based on historical trend analysis.

13. Losses on Appeals/ Increase in appeals provision are currently forecast to be on budget however this position is very fluid and will require careful monitoring in the coming months.

14. There is a provision of £27.2m carried forward into 2017/18. There have been a significant number of appeals settled in the first quarter of 2017/18 totalling £12.5m. This includes the settling of a number of Health Centre cases in addition to some large scale offices having significant reductions in RV.

15. Following the introduction of the 2017 Valuation List, a new appeals process was introduced entitled Check, Challenge and Appeal. To date no management information in relation to 2017 appeals will be available until quarter 2 of 2017/18 at the earliest.

16. We are still awaiting the settlement of a small number of cases for health centres but these cases have been provided for already. The current issues with regards to ATM's and Virgin Media have progressed, with Virgin Media stating that they are withdrawing their appeals, and the ATM cases being lost at the upper tribunal. However until all appeals and legal avenues have been exhausted, it is prudent to maintain these provisions at the current rate

Conclusion

17. Whilst the in year forecast position of a £0.4m deficit on the Collection Fund is relatively acceptable, there are significant issues that could impact on this during the next 9 months.

18. It will require careful monitoring both in terms of 2010 list appeals settled and 2017 list appeals raised to make sure that we have an adequate provision to cover these appeals and not have an impact on future years budgets.

CORPORATE RISK REGISTER

This Appendix provides a brief overview of the main financial risks facing the Council in 2017/18 and beyond. A more detailed schedule of these risks will be monitored by the Executive Management Team to ensure that the risks are mitigated.

Corporate Risks

2017/18 Budget Savings & Emerging Pressures

1. There will need to be robust monitoring in order to ensure that the level of savings required for a balanced budget in 2017/18 are achieved, especially given the cumulative impact of £352m of savings over the term 2011-17, and furthermore the backdrop of continuing reductions in Government grant from 2017/18 onwards.

2. In the early months of 2017/18, officers identified numerous pressures which, if left unchecked, could lead to significant overspends in 2017/18 and beyond. The following pressures have been highlighted because they present the highest degree of uncertainty.

Capital financing costs

3. The Council currently maintains a substantial but prudent under borrowed position (ie we have used our own spare cash to cash-flow capital spend, rather than borrow externally) to help support the revenue budget and mitigate residual counterparty default risk on cash investments. In operating with an under borrowed position the Council exposes itself to interest-rate risk. This risk is exacerbated by the uncertainty created by the EU referendum decision. Recognising this, our Treasury Management function maintain a regular dialogue with the Director of Finance and Commercial Services and the Executive Director of Resources to monitor the risk and review mitigation opportunities.

Business Rates

4. 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.

5. There has been a concerted effort by the Valuation Office Agency to clear outstanding appeals prior to and following the launch of the 2017 Revaluation. However as at 30th June 2017, there were still over 1,100

properties relating to the 2010 valuation list with a rateable value of approximately £150m under appeal in Sheffield.

6. Not all of the £150m rateable value noted above is at risk and not all the appeals will be successful. However due to the uncertainty around these factors a prudent provision was taken during 2016/17 to mitigate the loss of income as a result of successful appeals. Actual trends on appeals were monitored in 2016/17, with any revised estimates of the impact of appeals forming part of the 2017/18 budget process.

7. As part of the Business Rates Retention Scheme, there is a built-in revaluation process every five years to ensure the rateable values of the properties remain accurate. This process had been delayed for 2 years but has come into effect from 1 April 2017. This has seen all hereditaments in Sheffield revalued and assigned a revised rateable value. There is the potential that there will be a large number of appeals due to this revaluation which has been taken into account when compiling the 2017/18 budget.

8. The appeals process following the 2017 Revaluation has changed and now will be known as Check, Challenge, Appeal. The aim of this system is to reduce the number of spurious and speculative appeals and reduce the time taken to process genuine appeals; however it is not known at this point how effective this new process will be. To date we have not seen any management information relating to the number of appeals that are being processed under the new Check, Challenge and Appeal process which we are continuing to press the Valuation Office on.

9. The draft list for the 2017 Revaluation highlights significant changes for a number of hereditaments within the city. The overall Rateable Value of the city has remained relatively stable; however within that there are a number of increases and decrease in value.

10. The city's largest hereditament (in terms of rateable value) following the 2017 Revaluation is a national telecommunications provider whose appeals feature a claim that all of their hereditaments across the country should feature on one authority's list. We are having ongoing discussions with both the Valuation Office Agency and DCLG as to the likelihood of this occurring and any potential ramifications. This hereditament had a number of appeals in place of which a significant number have been withdrawn however we have taken the prudent approach to maintain the provision for this hereditament until all appeals have either been settled or withdrawn.

Implementation of savings proposals

11. The risk of delivering savings in 2017/18 in specific areas such as adults' and children's social care is considerable, given the increasing demand pressures and the levels of savings that have been achieved in previous years. To mitigate this, officers are working on the safe and legal implementation of budget proposals by:

    - Ensuring that there is a thorough understanding of the impact of proposals on different groups and communities, including undertaking Equality Impact Assessments for budget proposals and discussed with Cabinet Members;
    - Carrying out appropriate, meaningful consultation activity with affected communities and stakeholders, and ensuring that where the proposal affects a supplier or provider, that they undertake appropriate consultation and equalities work with service users; and
    - Discussing budget proposals with affected members of staff in advance of them being made public, and putting in place MER processes where required, in consultation with HR.

Medium Term Financial Analysis

12. On 19th July 2017, Cabinet considered a report of the Executive Director of Resources entitled Medium Term Financial Analysis (MTFA) 2018/19 to 2022/23. This report provided an update of the Council's MTFS to reflect the budget decision of the Council for 2017/18 and the potential impact on the next 5 years of the Government's plans for deficit reduction. This report sets the planning scenarios for the medium term.
13. The report on the MTFA indicated that there would be ongoing reductions in Revenue Support Grant (RSG) as outlined in the December 2015 Autumn Statement, which covers the period to 2020/21. The reductions in RSG are now expected to total £53.7m including 2017/18.
14. Up to the point at which the General Election was called, the local government sector was working on the assumption that 2019/20 would see the implementation of 100% business rates retention, the implications of which were covered in significant detail in last year's MTFS.
15. However the result of the General Election and subsequent omission of the Local Government Finance Bill from the Queen's Speech on the 21st June, made it clear that there are no current plans to pursue the

implementation of 100% business rates retention. Informal representations from DCLG have echoed this view and highlighted that there will be no 100% business rates retention deal by 2019/20.

16. Although the figures reported in the MTFA are based around the principle of adopting 100% business rates retention from 2019/20, it was always acknowledged that the impact of such a process was anticipated to be fiscally neutral. i.e. the additional 50% business rates income would be exchanged pound for pound for existing funds provided to the Local Authority such as RSG and Public Health Grant.

17. The Council's financial position is 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 and a focus on delivering economic growth to increase our income and on delivering outcomes jointly with other public sector bodies and partners.

Pension Fund

18. 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.

19. Initial results of the triennial review for pensions which covers 2017 to 2020 highlighted the total liabilities being underwritten by the Council for external bodies is £10.4m. It is worth noting that this figure is based upon the current estimates of the pension funds in deficit. However, should an organisation become insolvent, this liability will be crystallised and subject to a 'least risk basis' calculation. This calculation in effect would substantially increase the amount due by Sheffield City Council.

20. A review of these risks is being undertaken to ensure that any impacts of potential crystallisations are minimised.

Economic Climate

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

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

External Funding

23. The Council utilises many different grant regimes, for example central government, Sheffield City Region 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. In order to minimise risk strong project management skills and sound financial controls are required by Project Managers along with adherence to the Leader's Scheme of Delegation to approve external funding bids.

24. As SCC funding reduces, portfolios are increasingly seeking out new sources of external funding, both capital and revenue. EU funding contracts have more complex conditions, require greater evidence to substantiate expenditure claims and are less flexible on timescales and output delivery targets. This increases the inherent risk in projects which are EU funded. Furthermore as the Council reduces its staff resources a combination of fewer staff and less experienced staff increases the risk of non-compliance with the funding contract conditions and exposes the authority to potential financial claw back.

25. Moreover, the pressure on the General Fund means that Service Managers are forced to seek more external funding such that the general level of risk associated with grants is increasing because of the additional workload this creates amongst reduced and potentially inexperienced staff.

26. The result of the referendum on EU membership does not in the short term change the risk profile of EU grants.

Treasury Management

27. The Council proactively manages counter-party risk especially since the credit crunch of 2008. Counterparty risk arises where we have cash exposure to bank and financial institutions who may default on their obligations to repay to us sums invested. Counterparty risk had diminished over the last financial year as banks have been obliged to improve their capital funding positions to mitigate against future financial shocks. However, the UK's decision to leave the European Union has the potential to intensify these risks as the UK's decision to exit the EU creates significant political, economic, legislative and market uncertainty which is unlikely to be resolved in the short term. The Council is continuing to mitigate counterparty risk through a prudent investment

strategy, placing the majority of surplus cash in AAA highly liquid and diversified funds.

28. As part of the 2017/18 budget process, we developed Treasury Management and Investment Strategies, both of which were based on discussions with members and senior officers about our risk appetite. This included a review of our counter-party risk to ensure it is reflective of the relative risks present in the economy. A cautious approach was adopted whilst the uncertainties created by the exit from the EU are resolved and the level of market volatility returns to normal levels. Given the profound nature of the exit from the EU, we may need to review our Treasury Management and Annual Investment Strategies during 2017/18 to ensure we have the ability to respond appropriately to market volatility.

29. The Council is also actively managing its longer term need for cash. Cash flow requirements show that the Council will require new borrowing in the coming years to finance capital investment.. The uncertainties caused by the UK exit from the EU will require the Council to remain vigilant to interest-rate risk, and will draw down loans in a timely manner to militate against borrowing costs rising above our target rates.

30. The Council is continuing its efforts to ensure full compliance with the increasingly stringent requirements of Payment Card Industry Data Security Standard (PCI DSS). PCI DSS is a proprietary information security standard for organizations that handle branded credit cards from the major card schemes including Visa, MasterCard and American Express.

31. The Council currently has two early payments outstanding with a major supplier in return for a saving on the contract cost. There is a risk to the Council that having received payment that these companoes may fail to deliver the services due under the contract. This is mitigated by the existing contract protections, financial evaluation of the company and parent company guarantee. Also as goods and services are delivered against these contracts, the level of exposure reduces over time.

Welfare Reforms

32. In April 2013, the government began to introduce changes to the Welfare system which have had and will continue to have a profound effect on Sheffield residents including council taxpayers and council house tenants. The cumulative impact of these changes is significant. They include:

- **The Abolition of Council Tax Benefit:** replaced with a local scheme of local 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:** Since 2013 the Government has introduced, and will continue to introduce various changes to the Housing Benefit System. These changes aim to reduce the level of benefit paid and hence potentially impact on the recipient's ability to pay rent and council tax. Consequently there may be an adverse impact in the level of arrears particularly as a result of the introduction of Universal Credit.
- **Introduction of Universal Credit (UC):** The roll out of UC for claimants in Sheffield started in January 2016 for new single jobseekers. Roll out to other new claimants is planned to start in July 2018. However, full migration of existing working age Housing Benefit claimants will not start until at least 2019 and is not expected to be finished until at least 2021. There are no known plans to discontinue Housing Benefit for pensioners (who make up half of our HB caseload) although arrangements for funding are under review.
- Potentially the biggest impact on the Council's finances of the introduction of UC is on the HRA and collection of rent. Support towards housing costs is currently paid through housing benefit direct to the HRA; in future this will be paid through UC direct to individuals. It is estimated that this could double or even treble the cost of collection and increase rent arrears by £12m by the end of 2020/21. However, impacts are uncertain at present as there is limited data available therefore estimates will be reviewed as we learn from the roll out. There will also be an impact on the current contract with Capita and internal client teams.

People Risks – Children Young People and Families

Education Funding

33. Schools are entitled to receive a proportion of the Council's Dedicated Schools Grant (DSG) which schools forum have decided can be de-delegated back to CYPF to fund central services. Academies can on conversion choose whether to buy into those services thus creating a potential funding gap. Up to £500k could be at risk to centrally funded services should Academies choose not to buy back those services funded from de-delegated DSG from the local authority.

34. 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. In 2017/18 this cost to the Council is estimated at around £100k and remains a risk for any future conversions, especially with the expansion of the academy conversion programme.

35. Also as part of the Spending Review and Autumn Statement 2015, the government announced that it will introduce a national funding formula for schools, high needs and early years. The government had planned to introduce this new funding formula from 2017/18; however, the new system will now apply from 2018/19. The government has launched a detailed consultation; further details and the financial impact for Sheffield are expected later in 2017.

36. As part of transition to a National Funding Formula, when all funding allocations to schools will be directly managed by Education Funding Agency (2019-20), Sheffield school forum is expected to review and approve all previously held centrally held allocation subject to a limitation of no new commitments or increase in expenditure over the next two years. These historical commitments are now part of central school block and school forum approval is required each year to confirm the amounts on each line. Expenditure in centrally held funding amounts to around £8m.

Children's Social Care

37. There is an increase in demand for services for children social care including demand for Unaccompanied Asylum Seeking Children. A number of transformational projects have been put in place to manage the increase in demand within available resources. Implementation of these programmes is contingent upon cross service and cross portfolio working.

People Risks – Adult Social Care

38. In 2017/18 we have a significant partnership arrangement with the CCG which includes various funding streams for core services in Adult Social Care. There is a risk that these funding streams are not sustainable long term and there would be a risk to the Council delivering core services should this funding cease..

39. In 2017/18 it is proposed to enter a pooled budget arrangement with the Clinical Commissioning Group and manage Mental Health services jointly within the Better Care Fund and identify savings through a new joined up approach to delivering services. Work needs to continue to ensure this new arrangement works for all partner organisations and that the clients receive the right level of support irrespective of where the funding of the service happens.

40. For 2017/18 we have put in measures to address the budget gap on all Adult Social Care Purchasing both Older People and Learning Disabilities however the risk remains that continued demand pressures increasingly affect our position to balance. Demand management plans within service should address some of the continued pull on resources and hopefully redress some of the continued increases seen over the last two years.

41. There is a risk around legislation changes imposed by central government on future funding of social care and the potential impact on client contributions to their care.

Place Risks

2017/18 Revenue Budget savings

42. The Place budget comprises three significant contracts - Streets Ahead programme, Waste Management contracts and the South Yorkshire Passenger Transport Levy – which together absorb 80% of the General Fund support. The Portfolio cannot meet projected reductions in local authority funding by cutting only the remaining 20% of the budget without a significant reduction in services. Thus in the 2015-16 Business Planning round, the Portfolio’s strategy was based on reducing the cost of these contracts to preserve the other services.

43. The South Yorkshire Transport Levy has been successfully reduced but not the Streets Ahead or Waste Management contracts. The Portfolio has now developed three strategic interventions including further savings from the ITA Levy which follow on from existing plans, reducing the level

of support to Sports Trusts and embarking on a review of all the other services seeking a business-like approach to service delivery seeking to reduce cost or maximise income. Realising the efficiencies and opportunities within this review is crucial to maintaining the current Place savings. The review is at an early stage and requires swift implementation, along with a number of other strategic interventions, if the necessary revenue budget savings are to be realised in 2017/18. Failure to so do will very probably create an overspend pressure for the Council.

44. In light of the above risks, a review of waste services has taken place with a staged strategy agreed. As with any service change, there is a risk to the continuity of service delivery and in the longer term there is a potential financial risk if the expected investment does not result in better value services. The action taken by the Council has resulted in a revised service offer from its strategic partner which itis now considering. This could enable the delivery of waste services at the Council's desired level of cost. In order to mitigate the risks a robust governance structure has been put in place to review progress and issues and make decisions to ensure that the optimum solution is achieved.

45. The Council has entered into a 25 year contract with Amey to maintain and renew the public highway. Part of this work involves the replacement of trees which are damaging the pavement with new varieties which are more suitable to a roadside location. The Council has successfully defended a legal challenge on the application of its policy. It has agreed a revised policy in respect of the removal of trees involving some public consultation. The hiatus in the programme caused by the legal action and potential subsequent delays during the consultation could make the Council vulnerable to substantial additional charges from the contractor.

46. £0.9m of the 2016/17 budget saving initiatives (£0.7m on the Streets Ahead contract and £0.2m in Parking Services) had not been achieved to date. These will roll forward to 2017/18 as part of the base budget and create an immediate pressure in that and future years unless these are delivered or a sustainable mitigating cost saving can be identified.

47. The Portfolio undertakes a number of complex, high profile capital projects which require strong cost control from the sponsor and project manager. Experience in 2016-17 has shown that this discipline is not present in all projects and has exposed the portfolio to a requirement to find funding from the Revenue Budget to fund the overspend.

48. Furthermore, the Council has agreed a number of contingent liabilities relating to developments within the city centre. If these were to crystallise there would be an immediate Revenue and Capital Budget impact

Housing Revenue Account Risks

49. 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 and changes to Housing Benefits, the Government has announced a number of further changes in the Housing and Planning Act and Welfare Reform and Work Act. These include a revision to social housing rent policy, which will reduce rents until March 2020. This will have a considerable impact on the resources available to the HRA. In addition, other planned Government changes in relation to fixed term tenancies and levy proposals in the Housing and Planning Act will impact on both tenants and the HRA business plan. Work is continually ongoing to assess the financial impact of these. Other identified risks to the HRA are:

- **Welfare Reform /Universal Credit**: the Government's welfare reform continues to be a significant risk to the HRA. The risk to income collection will continue to become increasingly difficult as Universal Credit and continues to be rolled out. Mitigations are in place such as funding additional officers to manage the impacts of welfare changes on affected tenants. Work is continually ongoing analysing the financial risk to the business plan.
- **Interest rates:** fluctuations in the future levels of interest rates have always been recognised as a risk to the HRA. These are managed through the Council's Treasury Management Strategy.
- **Repairs and Maintenance:** existing and emerging risks within the revenue repairs budget include unexpected increased demand (for example due to adverse weather conditions). There may be additional costs resulting from a review of building standards regulations following the Grenfell Tower tragedy. Work is in hand to monitor and asses the implications of developments as they unfold.

50. The HRA business plan is regularly reviewed along with expenditure plans to ensure flexibility to respond to the expected Housing and Planning Act Regulations.

Capital Receipts and Capital Programme

51. Failure to meet significant year on year capital receipts targets due to reduced landvalues reflecting the uncertain market and the impact of the

Affordable Housing policy. This could result in over-programming, delay or cancellation of capital schemes.

Project Cost Control

52. There is an inherent risk within all the programme of overspending on any single project as a result of unforeseen circumstances (e.g. ground conditions or contamination) or poor management and planning. There have been several examples of this during 2016-17. The Council has made significant improvements in the management of capital projects including improved risk management, however, in the event of an overspend it will have to use its own limited resources to plug the gap.

Housing Regeneration

53. There is a risk to delivering the full scope of major schemes such as Park Hill and other regeneration schemes because of the instability in the housing market. This could result in schemes ‘stalling’, leading to increased costs of holding the sites involved.

Olympic Legacy Park

54. The Council supports the on-going development of the Olympic Legacy Park to regenerate the Lower Don Valley. Some parts of the infrastructure need private party or external funding to realise the vision. The Council has an obligation to provide a number of facilities to the educational establishment facilities on site against a very tight timescale. If the other site developments do not proceed in time, the Council may have to step in with funding which will place additional strain on the funding of the capital programme.

Sheffield Retail Quarter

55. The Council has committed to incur around £60m to acquire land, secure planning consent, and appoint a development manager to deliver the new retail quarter in the city centre. The scheme is being funded through prudential borrowing which will be repaid from the increased Business Rates that the completed scheme will produce (known as Tax Incremental financing (TIF)). The financing costs are being capitalised while the scheme is in development. There is a risk that if the scheme ceases to be active that the financing costs of circa £3m pa will have to be provided for from existing budgets. There is also a longer term risk that if the scheme does go ahead, the business rates generated are not sufficient to cover the financing costs. In order to mitigate these risks the Council is working closely with its advisors and potential tenants to

ensure that a viable scheme is being developed. It is also ensuring that the level of TIF is set at a prudent level.

56. In addition to the £60m already committed, the Council may in future have to invest substantial sums (potentially several hundred million pounds) to create the public realm and develop a proposition which an external investment developer would take forward. This may also involve the construction of buildings on a speculative basis with only part of the building pre let. The Council has recently approved a further £86m for the construction of the first building in the Retail Quarter on this basis.

Schools' Expansion programme

57. In February 2016 the Cabinet approved a report setting out the need to provide additional places in primary, secondary and Sixth Form establishments. The immediate demand for places in the next three years will require the Council to commit funds ahead of receipt from central government. The latest estimate of the gap is a maximum of £22m in 2018/19 after mitigating action. In subsequent years it expects to receive sufficient funding to repay the cash flow by 2021/22.

58. In the event of a change of government policy which reduced the financial support available to local authorities' capital programmes, the Council would very probably be faced with a greater affordability gap in the schools' capital programme than has already been identified above requiring it to contribute its own capital resources.

59. The Council already faces pressure to maintain the condition of the school building estate so there is a limited opportunity to divert funds earmarked for maintenance to support the school place expansion programme. The Council has taken steps to minimise this exposure by challenging the construction industry to build to a specific cost target against Education Funding Agency standards, and, matching the provision of some 16 – 18 year places to demand.

60. The modelling of the Schools Capital Programme has been based on an allocation of £21m Basic Need funding being granted in 2019/20, 20/21 and 21/22 - however the allocation that has recently been confirmed for 19/20 at lower level of £9.8m which could effectively push back the repayment period on the current advance commitment of Basic Need by 2 years. The service is challenging the basis of the allocation with the Department for Education and there may be alternative funding streams.

CAPITAL PROGRAMME MONITORING AS AT 30th JUNE 2017

Summary

1. The approved capital programme budget for 2017/18 at 30 June 2017 (Month 3) was **£289.7m.**

2. This is an increase of £28.9m from the position at 31 March 2017 due to authorised changes to budget as summarised in Section 11, with the majority of the increase relating to slippage of budgets from 2016/17.

3. The table below summarises the current year to date and forecast outturn position by programme.

Portfolio	Spend to date	Budget to Date	Variance to date	Full Year forecast	Full Year Budget	Full Year Variance on Budget
	£000	£000	£000	£000	£000	£000
CYP	1,413	5,860	(4,447)	33,852	33,799	53
Place	20,174	22,793	(2,619)	101,999	100,306	1,693
Housing	13,279	15,394	(2,115)	87,946	91,912	(3,966)
Highways	1,676	2,372	(696)	11,474	11,366	108
Communities	0	-	0	0	-	0
Resources	809	1,622	(812)	10,621	12,511	(1,890)
Corporate	11,947	11,947	0	39,831	39,831	0
Grand Total	49,299	59,987	(10,688)	285,725	289,726	(4,001)

4. The current forecast outturn indicates a year end slippage figure of £4m or 1.4% of the overall approved budget. However detailed review of the forecasts as identified in paragraphs 5-8 (below) and anticipated budget adjustments indicate this will rise to £7.3m.

   Where forecast variances appear to be indicative of underlying issues, formal budget variations will be requested from project managers.

5. Summary of main forecast slippage against full year budget:

Project	Directorate	FY Budget	FY Variance on Budget	Explanation
		£000	£000	
PITCHED ROOFING & ROOFLINE	HOUSING	24,563	(2,632)	Project delays due to tendering and contract issues.
WASTE MGMT DEVELOPMENT	PLACE	2,653	(1,401)	Delay in project, issues with costs and scope going forward. Likely budget re-adjustment Aug/Sep 17.
FRA WORKS 16-17	RESOURCES	3,783	(1,387)	Delayed start on site. Some outputs likely to slip.
NEW BUILD COUNCIL HSG PHASE 2	HOUSING	2,292	(1,309)	Agreement to complete 36 units only. Delay to overall scheme.
MOORFOOT LIFTS	RESOURCES	1,663	(540)	Forecast revised due to profile from contractor.
BEIGHTON LEACHATE TREATMENT*	PLACE	539	(533)	Project to be re-designed, full budget re-profile to be submitted.
TINSLEY PRIMARY*	CYP	834	(400)	Potential saving dependent on finalising costs of demolition and remediation
COUNCIL HSG ACQUISITIONS PROG*	HOUSING	3,915	(391)	Budget reduction awaiting approval (linked to Learning Disabilities Acquisitions)
DH – METERING*	HOUSING	807	(326)	Overall underspend forecast on project
PARKWOOD RESOLUTION SITE*	PLACE	289	(287)	Forecasting issue. Expected to spend to budget
Total		**41,338**	**(9,205)**	

6. The explanations in the table above indicate that of the £9.2m main forecast slippage approx. £2m does not relate to or impact on delivery of the capital programme as the items marked "*" represent either genuine expected savings, incorrect forecasts or variations to projects awaiting approval.

7. Summary of main forecast overspends over full year budget

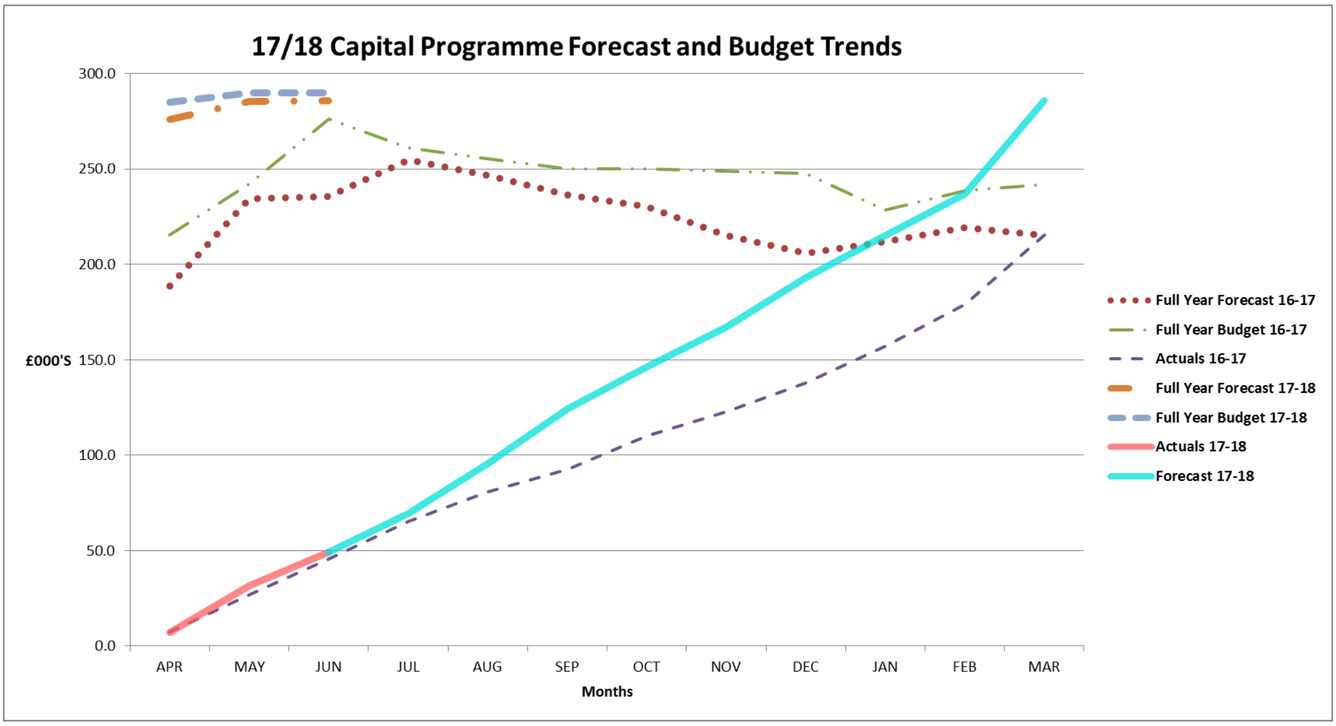
Project	Directorate	FY Budget	FY Variance on Budget	Explanation
		£000	£000	
LDV FLOOD DEFENCE WORKS	PLACE	3,811	2,110	Overspend due to various site issues and delays. Budget variation expected when additional funding confirmed.
SRQ HIGHWAY ENABLING WORKS	PLACE	2,639	1,596	Increase to budgeted costs. £1.5m covered from additional SCRIF funding with remainder from potential underspends in other work packages. Increased budget due to be approved at July Cabinet.
LD ACQUISITIONS DOH FUNDING	HOUSING	-	593	Budget awaiting approval
ECCLESALL PERMANENT EXTENSION	CYP	2,936	394	Forecast acceleration of scheme.
ASBESTOS REMOVAL	HOUSING	-	329	Budget awaiting approval
NORTH SHEFFIELD BBA GROUP C	HIGHWAYS	19	229	Budget awaiting approval
TOTLEY PRIMARY PERM EXTN	CYP	1,214	186	Forecast acceleration of scheme.
KITCHEN/BATHRM PLANNED REPLMT	HOUSING	7,875	147	Forecast acceleration of scheme
BROOKHILL AREA IMPROVEMENTS	PLACE	108	136	Additional costs identified, however, these will be funded by additional contribution from University of Sheffield. Budget variation to be brought forward.
WOODHOUSE EAST	PLACE	-	120	Budget awaiting approval
Total		**18,602**	**5,841**	

8. The explanations in the table above indicate that of the main forecast overspending projects only the £2m relating to the Lower Don Valley Flood Defence Scheme represents a genuine potential call on SCC funds expected to total approx. £1.15m. However, a formal offer for the remaining amount from the Environment Agency remains outstanding.

Forecast:

9. Capital expenditure in the first quarter is currently very similar to that in 2016/17. The key issue will be whether these levels can be maintained compared to 16/17 which showed a substantial slowing of expenditure from July.

10. However, it should be noted that £52m of capital expenditure relating to MSF financing and Highways PFI contribution are, for the most part, not delivery driven and can be expected to hit target.



Overview of Capital Programme

11. The overall programme from 17/18 forward has increased by £34.2m to £758.7m. The key reasons for the overall increase relate to:
 - £25.2m of slippage from schemes from 2016/17
 - £8.1m of additions – Key items being Moorfoot Lift Refurbishments (£2.3m), Expansion of Free Early Learning Provision (£1.2m), School Maintenance Schemes (£3.9m).

	2017/18 £m	2018/19 £m	Future £m	Total £m
Council Approved Budget	**260.8**	**175.2**	**288.6**	**724.5**
Additions	8.1	0.0	0.0	8.1
Variations	-0.5	1.3	0.0	0.8
Slippage and Acceleration	21.3	3.2	0.8	25.2
Month 4 Approved Budget	**289.8**	**179.6**	**289.4**	**758.7**

General Commentary

12. Table 1 (below) summarises the Top 20 projects in the Capital Programme by budget value in 2017/18. This group accounts for 75% of the current 2017/18 budget. The key variances on these major schemes are :
 - **Lower Don Valley Flood Defence** forecast overspend of £2.1m (expected to be mitigated by increased resources from the Environment Agency and SCC see section 14)
 - The **HRA Pitched Roofing Programme** currently forecasting an overall underspend of £2.6m on lifetime spend which would offer an opportunity to re-allocate these resources. However, further work is being undertaken in the Housing Team to validate this.
 -The **Fire Risk Assessment Programme** shows an in year and lifetime underspend of £1m. While there is the likely to be a level of in year slippage the overall underspend is unlikely to materialise as this is due to an increased budget allocation superseding the most recent forecast.

Risks

13. The Lower Don Valley Flood Defences remains the main realised current risk. The unknown workload and novel nature of the design created an inherent risk of overspend. This project is grant funded with promised specific outcomes which could leave the Authority exposed to clawback if these are not achieved. The latest position indicates a likely overspend on the project of £2.1m. Current negotiations with the Environment Agency indicate the availability of an additional £1m grant funding with SCC to provide

the remaining £1.1m potentially from Community Infrastructure Levy.

14. In 2017/18 the key projects with the potential to develop significant risks are:
 - **SRQ Development** – Major construction element with risks inherent as such.
 - Additional risk of revenue impact of capitalised interest costs if development stalls

 - **New Academy Schools – (Mercia and Astrea)** - When both schemes are fully approved total expenditure will total approx. £54m. Both schemes are under significant time pressure (school places required by September 2018) and cost pressure (expenditure being incurred in advance of grant allocations, requiring cash flow from SCC internal resources).

 - **Westfield Football Pitches -** Key risk on this project comes from number of funding streams involved, with potential for increased borrowing or use of capital receipts to meet any cost overruns.

Capital Finance - June 2017

Table 1

Capital Programme

Top 20 projects by value as at June 2017

		Current Year									Life of Project				
BU	Project	YTD Actual	YTD Budget	YTD Variance	FY Outturn	FY Budget	FY Variance	Variance %	Delivery Forecast RAG	Finance Forecast RAG	All Years Outturn	All Years Budget	All Years Variance	Delivery RAG	Finance RAG
0012018494054	SRQ OFFICES	7,547	7,867	(320)	40,119	40,119	(0)	0.0%	G	G	72,910	72,910	(0)	G	G
0011992099987	CAPITAL PFI CONTRIBUTIONS	11,947	11,947	-	39,831	39,831	-	0.0%	NR	G	39,831	39,831	-	NR	G
0014065397418	PITCHED ROOFING & ROOFLINE	3,756	4,949	(1,193)	21,931	24,563	(2,632)	-10.7%	G	R	56,199	58,831	(2,632)	G	G
0013001490797	MERCIA SCHOOL	60	1,362	(1,302)	15,229	15,229	(0)	0.0%	G	G	25,568	25,568	(0)	G	G
0012046394119	MSF FINANCE	-	-	-	12,173	12,173	-	0.0%	NR	G	103,264	103,264	-	NR	G
0012018494050	SHEFFIELD RETAIL QUARTER 2	1,709	1,746	(37)	9,915	9,915	(0)	0.0%	G	G	9,980	9,980	(0)	G	G
0012018494055	SRQ - STRATEGIC DEV PARTNER	627	1,705	(1,077)	9,453	9,453	0	0.0%	G	G	26,178	26,170	8	G	G
0014065397441	COMMUNAL AREAS-LOW RISE FLATS	1,496	1,603	(107)	8,466	8,466	0	0.0%	G	G	27,086	27,086	0	G	G
0014065398002	ELECTRICAL STRATEGY	10	1,432	(1,422)	7,878	7,878	(0)	0.0%	G	G	31,116	31,116	(0)	G	G
0014065397442	KITCHEN/BATHRM PLANNED REPLMT	3,801	1,731	2,070	8,023	7,875	147	1.9%	G	G	33,149	33,001	147	G	G
0012046394115	FA PITCH (WESTFIELD)	2,683	2,685	(2)	5,818	5,818	0	0.0%	G	G	5,818	5,818	0	G	G
0014060697321	PROGRAMME MANAGEMENT COSTS G	-	49	(49)	5,696	5,696	0	0.0%	G	G	23,080	23,080	0	G	G
0014065397443	WINDOWS& DOORS PLACEMENT(CHS)	1,089	1,040	49	4,918	4,871	47	1.0%	G	G	6,918	6,871	47	G	G
0014007597334	DISABLED GRANTS	510	531	(21)	3,910	4,031	(121)	-3.0%	G	G	11,910	12,031	(121)	G	G
0014059197551	COUNCIL HSG ACQUISITIONS PROG	576	1,019	(442)	3,523	3,915	(391)	-10.0%	G	A	15,970	16,361	(391)	G	G
0012018694010	LDV FLOOD DEFENCE WORKS	1,876	1,316	560	5,922	3,811	2,110	55.4%	R	R	5,929	3,819	2,110	R	R
0011518590159	FRA WORKS 16-17	60	524	(464)	2,397	3,783	(1,387)	-36.7%	G	R	2,804	3,783	(979)	G	R
0013001490802	ASTREA ACADEMY	768	2,195	(1,427)	3,054	3,054	0	0.0%	G	G	3,054	3,054	0	G	G
0012018594024	DIGITAL INCUBATOR	0	756	(756)	3,019	3,019	0	0.0%	NR	G	3,489	3,489	0	NR	G
0013001490861	ECCLESALL PERMANENT EXTENSION	23	27	(4)	3,329	2,936	394	13.4%	G	R	5,573	5,577	(4)	G	G
	Top 20 Value	**38,538**	**44,483**	**(5,945)**	**214,604**	**216,437**	**(1,833)**	-0.8%			**509,825**	**511,641**	**(1,816)**		
	Rest of Programme	10,761	15,504	(4,744)	71,121	73,289	(2,168)	-3.0%			246,757	247,058	(301)		
	Total Capital Programme Value	**49,299**	**59,987**	**(10,688)**	**285,725**	**289,726**	**(4,001)**	-1.4%			**756,582**	**758,699**	**(2,117)**		
	% of Programme within the Top 20	**78%**	**74%**	**56%**	**75%**	**75%**	**46%**				**67%**	**67%**	**86%**		

Scheme Description	Approval Type	Value £000

Whole Family Case Management
 	
• Contract for CareFirst (current IT system) expires in March 2018.
 	
• Existing product is no longer fit for purpose and would require upgrade to meet statutory requirements. This driver for change presents an opportunity to improve current capability, decrease costs and consolidate other case management functions.
 	
• The Council would be unable to meet requirements for secure management of data without replacing current ICT solution.
 	
• There are three outcomes expected from re-procuring an ICT solution.
  ○ Reduced overall cost in terms of support and maintenance.
  ○ Improve performance efficiency.
  ○ Improved quality of service through higher quality data highlighting improvement needs.
 	
▪ This supports the Corporate Plan objectives of having thriving neighbourhoods and communities and better health and wellbeing. This proposal also directly supports the objective of aligning Children's and Adult's Social Care in the people Portfolio
 	
• The overall objectives of this project are:
  ○ To implement the new solution in line with the phasing plan.
  ○ To migrate and archive approved datasets in line with the phasing plan.
 	
• A blended project delivery team is in place which includes members of portfolio application support, portfolio operations, BCIS and external suppliers. Governance is via the project board, PLTs and the Business Improvement Board.
	New	£2,192