REVENUE BUDGET & CAPITAL PROGRAMME MONITORING AS AT 31 December 2017

Purpose of the Report

1. This report provides the Month 9 monitoring statement on the City Council's Revenue Budget and Capital Programme to December 2017. The first section covers Revenue Budget Monitoring, and the Capital Programme is reported at paragraph 17.

REVENUE BUDGET MONITORING

Summary

2. As at month 9, the Council is showing a forecast overspend of £5.3m. This is a reduction of £12.2m on September's £17.5m forecast overspend. Portfolios have contributed £2.5m to this improvement whilst corporate items make up the remaining £9.7m.
3. The overall Council position is summarised in the table below.

Portfolio	FY Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
PEOPLE	220,471	204,240	16,231	⇩
PLACE	192,161	193,177	(1,016)	⇩
POLICY, PERFORMANCE & COMMUNICATION	2,292	2,463	(171)	⇔
RESOURCES	39,268	39,229	39	⇩
CORPORATE	(448,929)	(439,109)	(9,820)	⇩
GRAND TOTAL	**5,263**	**-**	**5,263**	⇩

4. In terms of the month 9 forecast overspend position of £5.3m, the key reasons are:

People are forecasting to overspend by £16.2m for the following main reasons:

- Learning Disabilities Purchasing is forecasting a £9.0m overspend, including £7.2m of existing client pressures and £1.0m of further growth expected this year.
- Long Term Care Purchasing is forecasting an overspend of £2.1m due to increased activity, a knock-on effect of reductions in Delayed Transfers of Care and of lengths of stay in Short Term Intervention.
- Inclusion and Learning Service is forecasting an overspend of £592k. This comprises of an overspend of £1.3m in Commissioned Mental Health Services due to unachieved savings based on agreements

between the Council and the CCG, offset by an underspend in Partnership Funding of £569k due to delayed contracts.

- Children and Families are forecast to overspend by £11.1m. Primarily this is down to a demand driven overspend of £8m in placement costs. Fieldwork Services are overspending by £1.9m due to increased transport costs and contact time for children in care. Delayed savings in Health Strategy have also contributed around £1.0m to the Overspend.
- These overspends are offset by an iBCF Contribution of £5.7m. A Cabinet paper in July approved the use of this funding to offset the above care pressures.

Place are forecasting a £1.0m underspend. This has been achieved through reductions in contract prices and reduction in forecast accommodation costs.

Resources are now forecasting to balance. However, it is worth noting overspends on Kier Insourcing (£556k) and delays in Customer Services savings (£239k) are offset by savings consisting mainly of a reduction in former and current employee pension costs (£334).

Corporate have reflected several items in month 9 that have contributed an underspend of £9.8m. Significant items include, £2m resulting from postponing required borrowing, overprovision in previous years and an adjustment to the anticipated life of assets has led to a reduction of the MRP required by £5.5m, and £2.2m in total being released from the pension reserve (£1.0m) and redundancy provision (£1.2m).

Appendix 1 describes these outturn forecasts in greater detail.

Commentary

5. The main variations since Month 6 are:

People has improved by £1.3m on the Quarter 2 position. The significant movements within this are;

- A £1.2m improvement against Adult Services. The significant movements within this figure are £789k reductions in non-essential spend, £521k saved via contract delays, and the inclusion of £1.0m of iBCF funding approved in July Cabinet. This is offset by pressures within Home Care of £631k and Learning Disabilities Purchasing of £374k and a reduction of income in Family & Community Learning of £169k.
- A worsening of position by £100k within Childrens' services. This is made up of a worsening of position by £150k against Children &

Families. This is the net effect of increases in transport, legal fees and support costs offset by reductions in staffing costs due to vacancies. This is further offset by an improvement of £58k against home to school transport costs.

Place has improved by £895k since the Quarter 2 report, due to relatively small forecast cost reductions across a number of service areas.

Resources and PPC have improved by a total of £286k. The key reason for this is additional cash limit allocated to Human Resources to cover costs relating to insourcing and trade union conveners.

Corporate forecasts have improved by £9.8m since Quarter 2. These movements are explained in the Summary section above.

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. This is compounded by the fact that the strategy to control social care pressures is expected to take at least a year to implement. The Council will build on these efforts to reduce the overall overspend. It should be noted that demand pressures in social care will continue to drive overspends in social care budgets, and also that these overspends are being mitigated by underspends against other budgets, in large part through the use of one-off solutions (e.g. the use of Improved Better Care Funding and the change to the MRP policy). Until the underlying issues with social care funding are resolved, it is likely that this will remain the main challenge to the financial position of the Council.
7. Full details of all reductions in spend and overspends within Portfolios are detailed in **Appendix 1**.

Public Health

8. The Public Health ring-fenced grant is currently forecasting a £795k underspend against the original grant allocation. Further details of the forecast outturn position on Public Health are reported in **Appendix 2**.

Housing Revenue Account

9. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme. As at month 9 the full year outturn position is an improvement of £2.6m from this budgeted position.
10. The main areas influencing the outturn include savings on operational costs and interest, offset by lower than budgeted rental income and higher repairs and maintenance costs.

11. In addition to the main HRA account, there is a £39k deficit on the ring fenced Community Heating account.
12. Further details of the HRA forecast outturn can be found in **Appendix 3** of this report.

Collection Fund

13. As at the end of Quarter 3, the local share of the Collection Fund Income Stream is forecasting an overall in-year deficit of £0.8m made up of a £3.3m surplus on Council Tax and a £4.1m deficit on Business Rates.
14. It should be noted that part of the deficit on Business Rates is caused by additional reliefs, announced by the Government in March 2017, for which we did not budget. We will receive approximately £0.7m of additional s31 grants that will feed into the General Fund balance. If these additional grants are taken into consideration then the Collection Fund is broadly balanced.
15. Further details about the Quarter 3 performance of the Collection Fund can be found in **Appendix 4**.

Corporate Risk Register

16. 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

17. The approved capital programme budget for 2017/18 is £293.7m. The current forecast outturn is £250.7m.
18. Further details of the Capital Programme monitoring, including a description of the £42.9m variance to budget, are reported in **Appendix 6**.

Minimum Revenue Provision (MRP) Report

19. Paragraph 4 above outlines a saving of £5.5m based on a change to the MRP policy. This was called in the Overview and Scrutiny Management Committee 23rd January 2018 who approved the change, and recommended that the Report outlining this decision be made available as part of this quarterly report.
20. The MRP Report is included in its entirety in **Appendix 7**.

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) Note the Minimum Revenue Position Policy change as approved by the Executive Director of Resources in Appendix 7.

Reasons for Recommendations

26. To record formally changes to the Revenue Budget and the Capital Programme, and following a request from the Overview and Scrutiny Committee on Monday 22nd January to include the Report on the MRP policy change.

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

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PORTFOLIO REVENUE BUDGET MONITORING
As at 31 DECEMBER 2017

People

Summary

1. As at quarter 3, the Portfolio is forecasting a full year outturn of an over spend of **£16.2m** on **Cash Limit budgets** and an over spend of **£1.5m** on **DSG budgets**. The key reasons for the outturn position on the cash limit are:

Care & Support : Learning Disabilities (forecast overspend of £9.0m):

- Purchasing LD is forecasting an over spend of £9.2m. This overspend is made up of existing client pressures of £7.2m and assumed pressures of £200k growth for the rest of the year with £840k expected fee increases offset by £600k of further savings to be achieved.
- Non-purchasing LD is forecasting an under spend of £120k. This is made up of a £277k under spend on Adult Placements Shared Lives and £114k on Future Options due to staffing vacancies partly offset by over spends against Provider Services of £264k in In-house Supported Living, Shortbreaks and Daycare.

Care & Support: Long Term Care (LTC) Purchasing (forecast overspend of £2.1m):

- Mainly due to increased activity in home care provision owing in part to improved pathway flows including reduced Delayed Transfers of Care and reduced length of stay in STIT.

iBCF Funding (contribution of £5.7m).

- A Cabinet paper in July approved the use of some of the iBCF funding allocated by Government in the spring to address some of the social care pressures. This paper described using the funding to cover some of the over spend in LD, mental health pressures within Care & Support and the assumed staffing pressure from the restructuring of social care into Localities.

Children & Families (forecast over spend of £11.1m)

- Placement budgets - £8.0m forecast over spend 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 - £1.9m forecast over spend mainly due to a forecast over spend of £1.7m in non-staffing budgets, due to increased transport costs and contact time for children in care.

- Health Strategy - £1m forecast overspend due to £1.2m overspend on Short Breaks and Direct Payments due to delay in anticipated savings.

Inclusion and Learning Service: (forecast overspend of £592k):

- Commissioned Mental Health Services - £1.3m forecast overspend. This is due to unachieved savings across all purchased provision of £1.3m agreed between SCC and the CCG.

- Partnership Funding - £569k forecast underspend due to delayed Dementia and Carers Break Contracts.

Business Strategy (forecast underspend of £641k)

- Business Strategy Operational Budgets - £346k forecast underspend, this is due to forecast underspends on staffing of £423k and increased traded income of £246k. This is partially offset by forecast overspends on non-staffing budgets of £296k, for example on IT supplies and services, due to licence costs and legacy issues.

- Portfolio Wide Budgets - forecast underspend of £268k. This is due to a £310k forecast overspend in the home to school transport budgets, due to continued increase in demand and increases in costs. This is offset by a forecast underspend of £471k against staffing budgets.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS STRATEGY - PEOPLE	9,812	10,453	(641)	⇩
CARE & SUPPORT	108,215	103,157	5,058	⇩
CHILDREN & FAMILIES	68,723	57,632	11,091	⇧
COMMUNITY SERVICES	8,437	8,306	131	⇧
INCLUSION & LEARNING SERVICES	25,284	24,692	592	⇩
GRAND TOTAL	**220,471**	**204,240**	**16,231**	⇩

DSG

2. The following is a summary of the position on DSG budgets at month 9:

	FY Variance Month 9 £000	FY Variance Month 6 £000	Diff Month 9 to Month 6 £000
Business Strategy	674	511	163
Children and Families	(82)	8	(90)
Inclusion and Learning Services	994	1,384	(390)
Community Services	4	4	0
	1,590	**1,907**	**(317)**

3. The key reasons for the forecast outturn position on the DSG position are:

Business Strategy (forecast over spend of £674k)

- Transport – forecast over spend of £314k in the transport budgets, this is due to continued increase in demand and increases in costs.
- Special School Complex Case Fund – forecast overspend of £404k, this is due to anticipated additional placement funding required from September 2017 to March 2018.

Inclusion and Learning Services (forecast over spend of £994k)

- SEND - £900k forecast over spend, 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 - £264k forecast over spend due to delays in anticipated savings. This is being addressed through the Redesign of Education Services Change Programme.

Commentary

4. The following commentary reports on the main variances from the quarter 2 position.

Care and Support

5. A forecast over spend of £5.1m shown on the table above which is an improvement of £165k on the reported Quarter 2 position.

6. The main reasons for the movement on cash limit are:

- A favourable movement of £695k due to the inclusion of the additional iBCF agreed in the July Cabinet Report to fund the stabilisation of the care market by negotiating with providers on hourly rates and service delivery.
- Access and Prevention Service favourable movement £345k due to inclusion of iBCF funding agreed in the July Cabinet Report and reductions in the forecast staffing costs including agency spend due to reduced length of stay of clients in Short Term Intervention Team (STIT).
- Long Term Care worsened position £631k mainly due to increased pressure on Home Care costs.
- Learning Disabilities worsened position £374k mainly due to increased pressure on the purchasing budget either from transition cases, increased package costs and increased hourly rates agreed through re-provision.

Community Services

7. A forecast over spend position of £131k as per the table above which is worsened by £169k since Quarter 2.

8. The movement is mainly due to the reduction in income forecast against Family and Community Learning offset by reduced spending in Locality Management on non-essential spend.

Children & Families

9. A forecast £11.1m over spend (shown in the table above) relating to cash limit and a £82k under spend on DSG. This is an increase in the overspend of £150k from quarter 2 on the cash limit and a £90k improvement on DSG from quarter 2.

10. The main reasons for the movement on cash limit are:

- Children's Disability Service - An increase of £123k from quarter 2. This reflects an increase in transport costs and increased support costs for children, reflecting the complex needs of these children.
- Fieldwork Services - An increase of £200k from the quarter 2 position. This reflects an increase in demand in support services for children in need, including contact time, legal fees and transport costs.
- Prevention and Early Intervention – A decrease of £123k from the quarter 2 position. This reflects a reduction in staffing costs due to staff vacancies.

11. There are no significant movements in the DSG budgets for Children and Families.

Inclusion & Learning Service

12. A forecast £592k overspend (shown in the table above) relating to cash limit and a £1.4m over spend on DSG. This is an improvement of £822k from quarter 2 on cash limit and an improvement of £390k on DSG.

13. The £822k improvement on cash limit budgets is mainly in the Commissioning budgets, following the Council wide review of non-essential spend the Partnership Funding service delayed the Dementia and Carers Break contracts which improved the forecast by £521k. The remaining improvement is improvements across commissioning following a review of non-essential spend and staffing vacancies.

14. The £390k improvement on the DSG position is also due to improvements across the service following a review of non-essential spend and staff vacancies.

Business Strategy

15. A forecast £641k underspend (shown in the table above) relating to cash limit and a £674k over spend on DSG. This is an improvement of £647k from quarter

2 on cash limit and an increase in the overspend of £163k on the DSG quarter 2 position.

16. The main reason for the improvement in the cash limit position of £647k is due to a number of improvements in the forecast across the service. Following the Council wide review of non-essential spend, the service reviewed all staffing and non-staffing budgets and has delayed recruitment and spend, wherever possible, this improved the forecast position by £489k. There has also been an improvement of £58k in the home to schools transport budgets, because costs for the new academic year are lower than anticipated.

17. The main reason for the increase in the DSG overspend of £163k, is mainly due to an increase of £154k in the overspend on the Complex Case Fund (total overspend at month 9 of £404k). This reflects anticipated additional placement funding required from September 2017 to March 2018, for special schools and Integrated Resources in schools.

Proposed Budget Virements for Quarter 3

18. None

Carry Forward Requests

19. None

Place Portfolio

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS STRATEGY & REGULATION	31,205	30,602	603	⇩
MAJOR PROJECTS	84	95	(11)	⇔
CULTURE & ENVIRONMENT	87,687	88,393	(706)	⇩
HOUSING GENERAL FUND	3,370	3,551	(182)	⇔
CITY GROWTH	27,924	27,997	(73)	⇩
TRANSPORT AND FACILITIES MGT	41,892	42,539	(647)	⇩
GRAND TOTAL	**192,161**	**193,177**	**(1,016)**	⇩

Summary

20. As at month 9 the Portfolio is forecasting a full year outturn of £1.0m under budget. The key reasons for the forecast outturn position are:

- **Business Strategy & Regulation** is forecasting £603k over budget due to slippage in the delivery of planned savings on 'Place Change Programme 1'.
- **Culture & Environment** is forecasting £706k under budget, due to contract and other service cost reductions (£1.1m and £291k respectively) offset by slippage in planned savings on the Streets Ahead Programme of £714k.
- **Housing General Fund** is forecasting £182k under budget largely from forecast cost reductions in overall staffing budgets
- **City Growth** is forecasting £73k under budget, with key variances being slippage in planned savings on 'Place Change Programme 1' (£495k), offset by cost savings, including vacancy management and additional income from within the Property Services activity (£566k).
- **Transport & Facilities Management** is forecasting £647k under budget, largely from cost reductions being forecast in the running costs of key office accommodation.

Commentary

21. The overall position for the Portfolio shows an improvement of £895k since month 6. This is largely due to a number of forecast cost reductions agreed at Director budget reviews, following the recent £1m improvement target set by EMT for the Portfolio.

Carry Forward Requests

22. Nothing significant to report.

Resources Portfolio

Summary

23. As at month 9 the Portfolio is forecasting a full year outturn of an over spend of £39k. The key reasons for the forecast outturn position are:

- An over spend of £556k on Corporate Rebates & Discounts due to there being a corporate savings target which does not yet reflect the impact of Kier insourcing and the removal of the previously received advance payment discount.
- An over spend of £239k 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 staffing reductions have been made through VER/VS but will only achieve part year savings. Mitigations are in place through controls on all further recruitment.

Offset by:

- A reduction in spend of £530k in Central Costs. This is made up of a £334k reduction against Former and Current Employee Pension Costs, a £149k reduction in the Corporate Democratic Core in respect of the HRA charges, £78k recharge income from H drive and mailbox charges and £56k from former Sheffield Homes bulk print charges. Offset by a £112k overspend relating to bank charges (due to increased charges and volume).
- A reduction in spend of £219k on Human Resources. This is due to over recovery of income on Health, Safety and Well Being (£46k), Learning & Development (£52k) and HR Projects (£80k) alongside a £36k under spend on employee spend across the service.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS CHANGE & INFORMATION SOLUTI	1,727	1,630	97	⇔
CORPORATE REBATES & DISCOUNTS	(1,512)	(2,068)	556	⇔
CUSTOMER SERVICES	5,802	5,563	239	⇔
FINANCE & COMMERCIAL SERVICES	6,330	6,367	(37)	⇔
HUMAN RESOURCES	3,575	3,794	(219)	⇩
LEGAL SERVICES	3,662	3,722	(60)	⇔
RESOURCES MANAGEMENT & PLANNING	178	187	(9)	⇔
TOTAL	19,763	19,195	568	⇩
CENTRAL COSTS	19,098	19,628	(530)	⇩
HOUSING BENEFIT	406	406	0	⇔
GRAND TOTAL	**39,268**	**39,229**	**39**	⇩

Commentary

24. This position is an improvement of £286k on the position reported at Month 6. The key reasons for this movement are;

- A £142k improvement in Human Resources due to cash limit adjustments being made to cover off additional spend in relation to the insourcing of HR (£84k) and the re-grading of Trade Union conveners (£50k).

- A £120k improvement within Central Costs. The key reason being the £149k reduction in the Corporate Democratic Core Charge in respect of the HRA which was recalculated for 17/18 in Month 7.

Policy, Performance and Communications Portfolio

Summary

25. As at month 9 the Portfolio is forecasting a full year outturn of an under spend of £171k. The key reason for the forecast outturn position is:-

- A reduction in spend of £108k, mainly in relation to Policy and Improvement due to staffing vacancies, alongside removing non-essential spend.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
POLICY, PERFORMANCE & COMMUNICATION	2,427	2,598	(171)	⇔
PUBLIC HEALTH	(135)	(135)	0	⇔
GRAND TOTAL	**2,292**	**2,463**	**(171)**	⇔

Commentary

26. This position is an improvement of £45k on the position reported at Month 6. The key reason for this movement is the removal of non-essential spend.

Corporate

Summary

27. As at month 9, the Corporate portfolio is forecasting a £9.8m underspend. The Corporate budget is made up of the following.

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

28. The forecast underspend is made of the following factors;

- A change to the Minimum Revenue Provision policy, releasing £5.5m of savings.

- £2m of interest costs avoided by postponing required borrowing.
- £1.2m and £1.0m released from the pension and redundancy reserve respectively due to a lower level of charges than was expected.

Commentary

29. The current position is a £9.8m improvement since Month 6. As the Corporate transactions were forecast to balance at Month 6, this movement is explained by the above description of the underspend.

Financial Results

30. The table below shows the items which are classified as Corporate.

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
CAPITAL FINANCING	30,320	38,048	(7,728)	⇩
CORPORATE ITEMS	(479,249)	(477,157)	(2,092)	⇩
GRAND TOTAL	(448,929)	(439,109)	(9,820)	⇩

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PUBLIC HEALTH BUDGET MONITORING

As at 31st December 2017

Purpose of the Report

1. To report on the 2017/18 Public Health grant spend across the Council for the month ending 31st December 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 9 the overall position was an underspend of £795k which is summarised in the table below.

Portfolio	Forecast Full Year Expenditure	Full Year Expenditure Budget	Full Year Variance as at M9	Full Year Variance as at M6	Movement from Prior Period
PEOPLE	28,288	28,796	(508)	(283)	(225)
PLACE	3,021	3,018	3	(107)	110
DIRECTOR OF PH	1,681	1,971	(290)	(250)	(40)
Total	32,990	33,785	(795)	(640)	(155)

5. Key reasons for the forecast positions spend are:
   - Place broadly balanced to budget.
   - (£508k) underspend in People mainly as a result of underspending in Mental Health Commissioning Partnerships and Grants, slippage of recruitment and contracts (including Carers Breaks).
   - (£290k) underspend in Director of Public Health as a result of staffing vacancies, support services underspends and liabilities that have not yet materialised on GP Healthchecks Contracts.

6. Key Reason for any significant quarterly movements are:
    - The underspend in People is mainly as a result of vacancy savings in a number of areas and slippage on contracts including Carers Breaks.
    - The increased costs in Place is largely as a result of £103k additional spend on new and emerging projects e.g Literary trail in Shirebrook Park, funded by underspends on salaries.
    - Further underspend in Director of Public Health is as a result of revised support services costs and staffing.

HOUSING REVENUE ACCOUNT MONITORING 2017/18 as at 31st December 2017

Purpose of this Report

1. To provide a summary report on the HRA 2017/18 revenue budget for the month ending 31 December, 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. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme.
3. As at month 9 the full year outturn position is an improvement of £2.6m from this budgeted position.
4. Main areas influencing the outturn include lower than budgeted rental income, repairs and maintenance costs including additional fire safety work and some costs relating to the previous year. Projected savings on overall operational costs and lower than budgeted borrowing costs leave the account a forecast £2.6m 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	(144,295)	(144,920)	625
2.OTHER INCOME	(6,439)	(6,407)	(32)
3.REPAIRS & MAINTENANCE	33,121	32,270	851
4.DEPRECIATION-CAP FUND PROG	39,957	39,957	-
5.TENANT SERVICES	49,976	53,207	(3,231)
6.INTEREST ON BORROWING	14,449	15,269	(820)
Total	**(13,231)**	**(10,624)**	**(2,607)**
7.CONTRIBUTION TO CAP PROG	13,231	10,624	2,607

Community Heating

5. The budgeted position for Community Heating is a draw down from Community Heating reserves of £237k. As at month 9 the position is a draw down from reserves of £276k, an unfavourable movement of £39k.

Community Heating	FY Outturn £000's	FY Budget £000's	FY Variance £000's
Income	(2,569)	(2,448)	(121)
Expenditure	2,845	2,685	160
Total	**276**	**237**	**39**

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.

7. 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 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.

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

COLLECTION FUND MONITORING

As at 31 December 2017

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	-157.2	-194.3	-3.3
Business Rates Locally Retained	-96.7	-90.4	-92.6	4.1
TOTAL	**-287.7**	**-247.6**	**-286.9**	**0.8**
RSG/Business Rates Top Up Grant	-107.4	-80.5	-107.4	0.0
TOTAL	**-395.1**	**-328.1**	**-394.2**	**0.8**

4. As at the end of Quarter 3, the local share of the Collection Fund Income Stream is forecasting an overall in-year deficit of £0.8m made up of a £3.3m surplus on Council Tax and a £4.1m deficit on Business Rates. This position has not materially changed from Q2.

5. Whilst the overall in year deficit is £0.8m, it should be noted that part of the deficit on Business Rates is caused by additional reliefs, announced by the Government in March 2017, which were not budgeted for. To compensate us for these additional reliefs, we will receive approximately £0.7m of additional S31 grants that will feed into the General Fund balance. If this is taken into consideration then the Collection Fund is broadly balanced.

Council Tax

6. The forecast year end position for Council Tax is a surplus of £3.3m. This is made up of a £2.7m increase on Gross Income chargeable to dwellings due to a growth in the Council Tax Base (CTB) forecasts and a £0.6m surplus on exemptions and reductions.

Business Rates

7. The forecast year end position for Business Rates is a £8.5m deficit of which Sheffield's share is £4.1m. The £8.5m deficit is primarily made up of year to date position for Gross Rates Income Yield shows a deficit of £18.3m, with a surplus on Reliefs, losses on appeals and losses on collection of £9.8m. 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	-237.9	-236.9	18.3
LESS Estimated Reliefs	30.5	25.8	27.2	-3.3
Losses on Collection	3.0	1.8	1.8	-1.2
Losses on Appeals re Current Year Bills	9.8	0.3	7.8	-2.0
Increase (Decrease) due to appeals / bad debt provisions	0.0	0.0	0.0	0.0
Net Collectable Business rates	**-211.9**	**-210.1**	**-200.1**	**11.8**
Transitional Protection Payments due from Authority	13.9	10.6	10.6	-3.3
Cost of Collection allowance	0.8	0.8	0.8	0.0
Non Domestic Rating Income	**-197.2**	**-198.6**	**-188.7**	**8.5**
Appropriation of net business rates:				
49.0% Sheffield City Council	-96.7	-97.4	-92.6	4.1
1.0% SY Fire Authority	-2.0	-2.0	-1.9	0.1
49.5% Government	-97.5	-98.4	-93.3	4.2
0.5% Designated Areas	-1.0	-1.0	-0.9	0.1
Total Appropriations	**-197.2**	**-198.6**	**-188.7**	**8.5**

Gross Rates Income Yield

8. The Gross Business Rates Income Yield has, to date, decreased by £18.3m compared to total budget. This primarily down to two factors, a large reduction in in year gross rates payable and a large number of 2010 list appeals being settled. The Gross Business Rates income yield used in the budget was based on a total rateable value for the city of £547m. This rateable value has dropped to £535M due to significant reductions in the value of two major properties totalling approximately £5m, reductions in the valuations of four office blocks totalling approximately £2m, along with across the board reductions of a further £5m. This has a net impact of reducing the Gross Business Rates income yield by £6m. In

addition to the reduction in the 2017 Gross Rateable Value, there has been a total of £9.3m of appeals relating to the 2010 valuation list paid out and a reduction in income due to transitional funding of approx. £3.3m.

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	8.9	8.9	-2.0
Transitional Relief	-13.9	-10.6	-10.6	3.3
Mandatory Charity Relief	22.5	21.7	21.7	-0.8
Discretionary Relief	1.3	0.2	0.2	-1.1
Empty Property / Statutory Exemption	9.3	5.5	6.0	-3.3
Partly Occupied Premises Relief	0.3	-0.2	-0.2	-0.5
New discretionary reliefs	0.1	0.2	1.2	1.1
	30.5	**25.8**	**27.2**	**-3.3**

9. 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 3 amounts to £25.8m which is £4.7m below the £30.5m in the budget. These are expected to rise to £27.2m by year end primarily due to the additional reliefs announced in the Spring budget not coming on line yet. These had not been budgeted for but we will receive section 31 grants back equivalent to the share in income lost by Sheffield Council, this amounts to approximately £0.7m.

10. The most significant variations are in relation to Empty Property Reliefs and Transitional Relief. The Empty Property Relief is currently £3.3m 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. Small Businesses Rates Relief is also £2.0m under budget, this is due to increased contributions in the Small Business Rates Yield due to past year valuations which are offset against the relief granted.

11. There is a forecast deficit on New Discretionary reliefs of £1.1m due to the introduction of the new business rate reliefs in the spring budget. SCC will be compensated for these new reliefs 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 in year refunds resulting from appeals. This was based on historical trend analysis and government estimates however to date we have had very little data regarding 2017 appeals under the Check Challenge and Appeals process. This is currently being followed up with the Valuation Office. 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.

13. There is an Appeals provision of £27.2m carried forward into 2017/18. There have been a significant number of appeals settled in the first half of 2017/18 which has reduced the provision required for 2010 appeals by over £9.3m. This includes the settling of a number of Health Centre cases in addition to some large scale office blocks and retail stores having significant reductions in RV.

14. Following the introduction of the 2017 Valuation List, a new appeals process was introduced entitled Check, Challenge and Appeal. To date we have seen very little management information in relation to 2017 appeals however the process does not allow any to appear until quarter 2 of 2017/18 at the earliest and so the amount of information is expected to increase. To date there have been 185 Checks and only 6 cases that have gone to the Challenge stage.

15. The two major outstanding issues relating to appeals concern ATM’s and Virgin Media. The case concerning ATM’s was recently dismissed at an Upper Tribunal (Lands Chamber). The ATM’s case has been forwarded to the Court of Appeal and should be heard in May 2018. As the case is still effectively live, it is prudent to maintain the provision until all legal avenues have been exhausted. Virgin Media had a number of very specific appeals which could have potentially seen it all but removed from Sheffield Valuation list. They have announced that they will no longer attempt to do this however until all of the remaining appeals have been withdrawn, it is deemed prudent to maintain this provision.

Conclusion

16. The forecast in year position of a £0.8m deficit on the Collection Fund is relatively acceptable and there are not forecast to be any substantial changes to this in the final quarter. The additional £0.7m of s31 grants due to additional business rates reliefs actually means that the collection fund is broadly balanced.

17. The appeals provision 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 and not have an impact on future year’s budgets.

CORPORATE RISK REGISTER
as at 31 December 2017

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 2018/19 are achieved, especially given the cumulative impact of Government grant cuts and significant emerging pressures.

2. During 2017/18, officers have identified numerous pressures which, if left unchecked, could lead to significant overspends in 2018/19 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 manageable under borrowed position (ie we have used reserves 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 on-going Brexit negotiations. 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 31st December 2017, there were still over 750 properties relating to the 2010 valuation list with a rateable value of approximately £115m under appeal in Sheffield.

6. Not all of the £115m 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 seen very little 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 however the overall Rateable Value of the city has remained relatively stable. The final list released later highlights a drop in rateable value of approximately £12m due to large reductions in the rateable value of a number of properties. This drop in rateable value is not expected to continue in the future.

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.

Medium Term Financial Analysis

11. 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.

12. 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.

13. 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.

14. However, the Provisional Local Government Finance Settlement (Dec 17) announced that only 75% of business rates would be retained by Local Authorities. The new level of retention is set to be implemented in 2020/21. We still expect this increase to replace existing grants such as RSG and the Public Health grant, and as such expect this to have no overall impact on the Council's net financing position.

15. 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, especially give the legislative changes above, 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

16. External bodies whose pension liability is underwritten 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.

17. The greatest risks to the Council are those schemes at risk of their pension fund closing in a deficit position. The deficit when the fund crystallises is based upon a 'least risk basis' calculation by the actuary, which results in a significantly higher deficit than if calculated on an ongoing basis. The Triennial Review which covers 2017-20 highlights the total liabilities being underwritten by the Council for external bodies is £10.4m. This figure is on an ongoing, rather than least risk,

basis. In the worst case, if these funds were to crystalise, the potential liability could be much higher.

18. These risks are continually reviewed to ensure that any impacts of potential crystallisations are minimised.

Economic Climate

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

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

External Funding

21. 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.

22. 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.

23. 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.

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

Treasury Management

25. 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 continue to diminish over the last couple of

financial years 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 rated, highly liquid and diversified funds.

26. 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 will continue to review our Treasury Management and Annual Investment Strategies during 2017/18 to ensure we have the ability to respond appropriately to market volatility.

27. 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.

28. 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. A major system upgrade and the introduction of secure manual telephone system have been siginificant improvements to the handling of card data.

29. The Council currently has one advance payment 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 this company 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 this contract, the level of exposure reduces over time.

Welfare Reforms including Universal Credit

30. A programme of welfare reforms, introduced in 2013, led to cuts in a range of benefits including Housing Benefit (HB) and Council Tax Support posing a risk to residents' ability to pay their rent and council tax and therefore increases in arrears.

31. The most significant reform, the introduction of Universal Credit (UC) which replaces HB for those of working age, began to be rolled out in Sheffield in 2016 with full take up expected in 2021 or later.

32. UC poses a significant risk to the Council's Housing Revenue Account as support towards housing costs, which is currently paid through HB direct to the HRA, will, under UC, be paid directly to individuals. It is estimated that this could double or even treble the cost of collection and increase rent arrears to £15m 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.

33. The Council administers a locally funded hardship scheme to provide extra support to residents who cannot pay their council tax and a government funded scheme which supports those who cannot afford to pay their rent (a review of these, and other , discretionary schemes is currently underway which aims to consolidate these different support schemes). The Council will also continue to take robust action to recover arrears from those who simply will not pay.

34. There is also a UC Project Working Group which is supporting the roll-out of UC and taking steps to ensure the Council is prepared for full take up.

People Risks – Children Young People and Families

Education Funding

35. 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.

36. 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.

37. 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.

38. 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

39. 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

40. 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..

41. 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.

42. 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.

43. 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.

44. For 2017/18 there is a risk that providers will seek to increase their fees, given the current level of over spend on the ASC budgets this will cause increased pressure.

Place Risks

45. The Place budget comprises three significant contracts - Streets Ahead programme, Waste Management and the South Yorkshire Passenger Transport Levy – which together absorb the major part of the portfolios General Fund support. The Portfolio cannot meet projected reductions in local authority funding by only reducing costs in the services that share remaining part of the General Fund budget without a significant reduction to those 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.

46. The South Yorkshire Transport Levy has been successfully reduced and savings have now been agreed and are moving towards implementation with effect from April 2018 from within the Streets Ahead and Waste Management contracts.

47. The Portfolio has also developed further strategic interventions including reducing the level of support to Sports Trusts and is embarking on a Place Change Programme to review all the other services seeking a business-like approach to service delivery. Realising the efficiencies and opportunities within these reviews are crucial to the Portfolio delivering a sustainable balanced position going forward.

48. The Portfolio undertakes a number of complex, high profile capital projects which require strong cost control from the sponsor and project manager. Experience in 2017/18 has shown that this discipline is not present in all projects and has exposed the portfolio on occasions to find funding from the Revenue Budget to fund overspends.

49. 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

50. 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 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.

51. 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

52. Failure to meet significant year on year capital receipts targets due to reduced land values 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

53. 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 2017-18. 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

54. There is a risk to delivering the full scope of major schemes such as Park Hill and other housing growth schemes because of the instability in the housing market.

This could result in schemes 'stalling', leading to increased costs of holding the sites involved and delayed realisation of the projected benefits including New Homes Bonus.

<u>Olympic Legacy Park</u>

55. 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.

<u>Sheffield Retail Quarter</u>

56. The Council has committed to incur around £62m to acquire land and carry out initial feasibility work to develop a plan and appoint a development manager to deliver the new retail quarter in the city centre. With the appointment of Quensberry Real Estate Limited as Strategic Dvelopment Partner a further budget of £27m was approved to take forward the pre-construction phases of the scheme including securing anchor tenant agreements, planning consent, and an acceptbale level of pre-lets. The scheme is being funded through prudential borrowing which will be repaid primarily 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 £4m 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.

57. In addition to the £89m already committed, the Council may in future have to invest substantial sums to create the public realm and develop the scheme if the proposition does not meet external developer investment thresholds. This may also involve the construction of buildings on a speculative basis with only part of the building pre let. The Council has already approved a further £89m for the construction of the first building and associated public realm in the Retail Quarter on this basis.

58. The Office accommodation of the building has been pre-let to HSBC on a 25 year lease with an option to exit at years 10 and 15. The retail and food and beverage units are still to be let. There is a risk that if all of the units are not occupied that

there will be a shortfall in the rent and rates income from which the financing costs are expected to be recovered. There is also a longer tem risk that if HSBC take the early exit option that the Council will have a significant shortfall if an alternative occupier cannot be found.

Schools' Expansion programme

59. 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.

60. 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.

61. 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.

62. Basic Need funding allocations for the purpose of school expansion are confirmed up to 2019-20. The modelling of the Schools Capital Programme has been based on an estimated allocation of £10m p.a.funding in. 20/21 and 21/22. Any reduction in these estimated amounts will delay the timescale for the repayment of the cash flow and also any future investment.

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CAPITAL PROGRAMME MONITORING AS AT DECEMBER 2017

1 - Statement of Budget Movement

The table below summaries the movement in budget from month 6 to month 9 and Capital programme budget position as at December 17.

	2017/18	2018/19	Future	Total	Comments
Month 6 Approved Budget	**303.8**	**195.5**	**289.7**	**789.0**	Key projects making up the £2.5m additions are: - £1.6m on Claywheels Lane infrastructure grant project. - £0.4m on Bus Hotspots improvements - £0.25m on School Expansion at Dobcroft The key elements of £15.3m slippage are made up of: - the £3m for the Digital Incubator Scheme. - £11.3m in the Housing programme - £0.5m each on the Highways and Internal Infrastructure programmes
Additions	0.6	1.9	0.0	2.5	
Variations	4.6	-2.9	-1.2	0.5	
Slippage and Acceleration	-15.3	1.9	13.3	0.0	
Month 9 Approved Budget	**293.7**	**196.4**	**301.9**	**792.0**	

2 - Top 20 Projects by value as at November 2017

The table below summarises the Top 20 projects in the Capital Programme by budget value in 2017/18. This group accounts for 77% of the 2017/18 capital programme. The major in year and all year variations are explained in sections 4 and 5 or comments section. None represent a major financial risk to the council.

PROJECT	Current Year								Remaining Life of Project					Comments
Values in £000	YTD Actual	YTD Budget	YTD Variance	FY Outturn	FY Budget	FY Variance	Variance %	Delivery Forecast RAG	All Years Outturn	All Years Budget	All Years Variance	Variance %	Delivery RAG	
SRQ Offices	27,302	23,912	3,390	40,064	40,119	(55)	-0.1%	G	74,535	72,910	1,625	2.2%	G	Budget increase awaiting approval.
Capital PFI Contributions	35,841	35,841	-	39,831	39,831	-	0.0%	NR	39,831	39,831	-	0.0%	NR	
Pitched Roofing & Roofline	13,120	15,370	(2,250)	18,386	20,988	(2,602)	-12.4%	G	62,831	58,831	4,000	6.8%	G	Current Yr Variance see 4.5. All year variance relates to budget increase awaiting approval
Mercia School	8,191	6,574	1,617	13,137	15,229	(2,092)	-13.7%	G	25,568	25,568	0	0.0%	G	See item 4.7
Astrea Academy	4,443	7,567	(3,124)	8,950	12,504	(3,554)	-28.4%	A	27,002	27,002	0	0.0%	A	See item 4.4
MSF Finance	5,993	5,993	0	12,173	12,173	0	0.0%	NR	103,264	103,264	0	0.0%	NR	
Kitchen bathroom Planned Replacement	10,825	9,268	1,558	13,165	11,529	1,636	14.2%	G	31,261	31,261	0	0.0%	G	See item 5.1
Sheffield Retail Quarter 2	1,407	5,719	(4,312)	4,802	9,915	(5,113)	-51.6%	G	8,045	9,980	(1,935)	-19.4%	G	Current Yr variance see item 4.3. All year variance relates to budget reduction awaiting approval
SRQ - Strategic Development Partner	1,206	9,224	(8,018)	2,373	9,453	(7,080)	-74.9%	A	26,519	26,178	341	1.3%	A	Current Yr variance see item 4.1. All year variance relates to budget increase awaiting approval
Electrical Strategy	31	5,730	(5,699)	831	7,878	(7,048)	-89.5%	G	31,116	31,116	(0)	0.0%	G	See item 4.2
Communal Areas-low Rise Flats	5,130	4,996	134	6,686	6,907	(221)	-3.2%	G	26,587	27,086	(499)	-1.8%	G	Current yr variance due to lower than expected costs. Potential saving to be confirmed when surveying work complete. All years variance relates to budget reduction awaiting approval.
Lower Don Valley Flood Defence Works	5,662	5,509	154	6,026	6,070	(44)	-0.7%	A	6,033	6,077	(44)	-0.7%	A	Potential saving due to lower than expected commercial settlement with contractor.
FA Pitch (Westfield)	4,869	5,818	(950)	5,818	5,818	0	0.0%	G	5,818	5,818	0	0.0%	G	
Programme Management Costs (General Fund)	2,710	2,847	(137)	5,696	5,696	0	0.0%	G	23,376	23,080	296	1.3%	G	Budget increase awaiting approval.
Windows & Doors Replacement	2,576	3,593	(1,017)	4,176	4,871	(695)	-14.3%	G	4,871	6,871	(2,000)	-29.1%	G	Current yr variance due to programme delays. All years variance relates to budget reduction awaiting approval.
Charter Square Enabling Works	3,558	3,262	296	3,900	4,153	(253)	-6.1%	A	5,436	4,153	1,283	30.9%	A	Re-allocation of budgets across SRQ workpackages awaiting approval
Disabled Grants	1,577	2,531	(954)	2,638	4,031	(1,393)	-34.6%	G	12,638	12,031	607	5.0%	G	See Item 4.10
Council Housing Acquisitions Program	1,694	2,565	(871)	2,400	3,523	(1,123)	-31.9%	G	14,847	15,970	(1,123)	-7.0%	G	Budget saving awaiting approval. Due to reduced availablility of suitable properties and lower than expected prices
Ecclesall Permanent Extension	1,412	1,423	(11)	2,866	2,936	(70)	-2.4%	G	5,577	5,577	0	0.0%	G	
S H Management Fees Commissioned	2,086	2,086	-	2,781	2,781	-	0.0%	NR	15,381	13,904	1,478	10.6%	NR	Budget increase awaiting approval.
Top 20 Value	**139,633**	**159,827**	**(20,194)**	**196,700**	**226,406**	**(29,707)**	-13.1%		**550,536**	**546,508**	**4,028**			
Rest of Programme	27,533	39,634	(12,101)	54,029	67,261	(13,232)	-19.7%		310,213	245,474	64,740			
Total Capital Programme Value	**167,166**	**199,461**	**(32,295)**	**250,729**	**293,668**	**(42,939)**	-14.6%		**860,750**	**791,982**	**68,768**			
% of Programme within the Top 20	**84%**	**80%**	**63%**	**78%**	**77%**	**69%**			**64%**	**69%**	**6%**			

3 - Current Year to date and Forecast Outturn Position

The forecast outturn position for 2017/18 is £42.9m below budget. This represents further slippage of of £14.2m from the position at Month 6. The key reason for this movement is the expected slippage on the SRQ scheme which began to be forecast at Mth 8. Key reasons for the variances at Mth 9 are explained below.

PORTFOLIO	YEAR TO DATE			FULL YEAR			Comments
Values in £000	Actual	Budget	Variance	Forecast	Budget	Variance	
Place	60,618	73,509	(12,891)	95,717	113,509	(17,792)	See section 4 for key variances.
Corporate	35,845	35,841	4	39,835	39,831	4	
Housing	45,476	58,220	(12,744)	66,692	82,774	(16,083)	See section 4 for key variances.
People	19,567	25,041	(5,475)	36,137	44,039	(7,902)	See section 4 for key variances.
Highways	5,615	6,795	(1,180)	12,281	13,066	(785)	Potential savings - £228k on Network Management and Core Investment Opportunities. Slippage - £300k on Network Management & Bus Hotspots Reduction - £174k Canal towpath resurfacing no longer progressing
Resources	46	55	(9)	67	447	(380)	Further slippage on Moorfoot lifts project
Grand Total	**167,166**	**199,461**	**(32,295)**	**250,729**	**293,668**	**(42,939)**	

4 - Top 10 Forecast Slippage against Full Year Budget

The table below illustrates that of the £34.5m main forecast underspends against budget, approximately £29m relates to delays in scheme delivery while the remainder relates to expected savings and/or re-profiling of allocations not yet committed. Several budget reprofiles are awaiting approval or due to be brought forward to eliminate the majority of these.

	Business Unit	Directorate	FY Budget	FY variance on budget	Explanation
4.1	SRQ - Strategic Development Partner	Place	9,453	(7,080)	DELAY - SLIPPAGE A delay in finalising key elements of the SRQ scheme has put back detailed design. A review of timescales and budget re-profiling has been completed and is awaiting cabinet approval.
4.2	Electrical Strategy	Housing	7,878	(7,048)	DELAY - SLIPPAGE A delay in tendering means delayed start. Contract award signed off November 2017. Start on site expected January 2018. Expected expenditure in 2017/18 £0.85m. Budget re-profile awaiting cabinet approval as part of Housing Capital Programme refresh based on outputs confirmed.
4.3	Sheffield Retail Quarter 2	Place	9,915	(5,113)	DELAY - SLIPPAGE A delay in finalising key elements of the SRQ scheme has put back detailed design. A review of timescales and budget re-profiling has been completed and is awaiting cabinet approval.
4.4	Astrea Academy	People	12,504	(3,554)	DELAY - SLIPPAGE due to on site issues. Phased opening now expected. Expenditure profile now based on latest contractor forecast. Budget reprofile awaiting cabinet approval. Expected completion now Jan 19
4.5	Pitched Roofing & Roofline	Housing	20,988	(2,602)	DELAY - SLIPPAGE Further underperformance by one contractor on the programme will result in 635 fewer outputs in 2017/18 than forecast previously. Action is being taken to address this element of the programme.
4.6	New Build Council Housing Phase 2	Housing	2,292	(2,233)	DELAY - SLIPPAGE 36 units to be delivered at Weakland site. Tender process has been abandoned. A specification review is to be completed and new procurement strategy submitted. A budget variation is to reflect this is awaiting cabinet approval as part of the Housing Capital Programme Refresh
4.7	Mercia School	People	15,229	(2,092)	REPROFILE - Works haven't progressed to anticipated programme due to planning issues/delays and works have been resequenced. Contractor claims haven't been in line with original cash flow, however there are no programme concerns on delivery timescales. Budget re-profile to reflect this awaiting cabinet approval.
4.8	Waste Management Development	Place	2,653	(1,815)	EXPECTED SAVING Project is now largely complete. This is an expected saving. Revised budget to be brought forward.
4.9	Whole Family Case Management (WFCM)	People	2,312	(1,520)	DELAY - SLIPPAGE - Due to late appointment of data migration consultants and portfolio leads. Final delivery now delayed from 18/19 to 19/20.
4.10	Disabled Grants	Housing	4,031	(1,393)	REPROFILE - The value of grant which supports the delivery of Disabled Facilities Grants has increased significantly in the past 2 years to a level at which it outstrips capacity to deliver. Confirmation has been received from DCLG that unused grant can be carried forward and investigations are ongoing into legitimate alternative uses of the funds via the Better Care Fund.
	Total		**87,255**	**(34,451)**	

5 - Top 10 Forecast Overspends over Full Year Budget

The table below indicates that approx. £448k of current in year forecast overspends could result in additional calls on council capital funds. Further information has been requested from project managers to confirm details.

	Business Unit	Directorate	FY Budget	FY variance on budget	Explanation
5.1	Kitchen/bathroom Planned Replacement	Housing	11,529	1,636	ACCELERATION - The contractor has now accelerated year 4 of the programme which will result in
5.2	Schools' Formula Devolved Capital	People	910	412	ACCELERATION - £348k for legacy BSF DFC funding to be paid out this year. BUDGET AWAITING APPROVAL - £36k to add back cost savings from Mechanical Prog.
5.3	Programme Management Costs (RTB)	Housing	-	384	BUDGET AWAITING APPROVAL - Transaction costs to be funded by a charge against the receipt.
5.4	Mechanical Reactive	People	348	138	BUDGET AWAITING APPROVAL - Re-allocation of savings from other Building Condition Schemes
5.5	Fire Risk Assessments 16-17 Firs Hill Primary	People	197	127	OVERSPEND - Costs greater than original anticipated budget. Additional funds to be drawn down from remaining allocation.
5.6	FRA Works Measured Term T&FM	Place	1,491	93	OVERSPEND - Higher costs due to increased levels of out-of-hours working. Additional funds to be drawn down.
5.7	Medico Legal Refurbishment	Place	1,880	91	OVERSPEND - Additional costs of generator now include in scheme. Approval for increased expenditure and confirmation of funding to be provided.
5.8	Aldine House- 2 Bed Extension	People	739	78	ACCELERATION - Contractor reports progress is ahead of programme
5.9	Emergency Demolitions	Housing	25	77	OVERSPEND - Additional demolitions at Daresbury View. To be funded from Major Repairs Reserve.
5.10	Football Association Pitch (Thorncliffe)	Place	37	59	OVERSPEND - Legacy costs greater than anticipated. Expected saving from other FA schemes to offset overspend before year-end.
	Total		**17,157**	**3,095**	

6 - Key Issues and Risks

Key Issues

- Astrea Academy has now formalised £2m slippage into 18/19 with a further delay to full opening identified.

Key Risks

- New risks have emerged in Highways reagrding the ability to deliver schemes reliant on a time limited funding stream. The Canal Towpath resurfacing project has been abandoned while discussions are ongoing as to whether measures can be put in place to allow the Upper Don Valley Cycle Route to be completed.

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SHEFFIELD CITY COUNCIL

Report of the Head of Strategic Finance

REVIEW OF POLICY FOR THE COUNCIL'S 2017/18 MINIMUM REVENUE PROVISION

1. **Purpose of Report**

1.1. The Council must determine its Minimum Revenue Provision (MRP) policy on an annual basis. The purpose of the report is to propose a revised Minimum Revenue Provision Policy Statement for 2017/18.

2. **Recommendation**

2.1. **It is recommended that the Council revise the 2017/18 MRP policy in accordance with the recommendations at section 4 of this report and detailed in Appendix A;**

3. **Background/ Introduction**

3.1. Minimum Revenue Provision (MRP) is a charge to the Council's revenue account to make a provision for the repayment of the Council's outstanding capital debt liabilities.

3.2. The Council is required by law annually to "determine for the current financial year an amount of minimum revenue provision which it considers to be prudent". The Secretary of State has issued statutory guidance ("the guidance") to guide local authorities in determining the "prudent" level of MRP. The guidance is not prescriptive: local authorities must have regard to the guidance, but must make their own judgement about what is prudent provision.

3.3. The MRP Statement must, by law, be approved by the Council. This is usually undertaken as part of the wider budget setting process.

4. **Proposals**

4.1. The Council's MRP policy was created in 2007 at the start of the new MRP system. There are four options for calculating MRP:-

- Option 1: Regulatory Method
- Option 2: Capital Financing Requirement (CFR) Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

4.2. However, these are by no means prescriptive, providing that the Authority has regard to the guidance and complies with the statutory duty to make prudent provision. Sheffield City Council's MRP policy followed Option 1, the Regulatory Method for Government supported expenditure until 2015/16 when it changed to policy to repayment over 50 years on an equal payment basis (2% per annum). Sheffield City Council use Option 3, Asset Life Method, for non-government supported expenditure.

4.3. The Council is facing further significant budgetary reductions over the next few years and needs to ensure a stable and deliverable financial transition over this period. As such, Finance Officers have carried out a more fundamental review of the Council's MRP policy to ensure it is appropriate in the context of its financial backdrop.

4.4. It is noted that the a significant number of other Local Authorities (including most, if not all, of the Core Cities Authorities) have undertaken comparable reviews of their MRP policies in light of the austerity agenda over the last few years and have made similar, and arguably in some cases less restrained, policy changes that have been accepted as prudent by their respective auditors. The proposals therefore reflect the wider national picture but remain highly prudent and retain the balance between current and future tax payers.

4.5. The review covers the 2 proposals outlined as follows:-

4.6. Proposal 1: Change to use of Regulatory Method

4.6.1. The "Regulatory Method" is one of the four MRP options exemplified in the Guidance (paragraph 7) and further described in DCLG's commentary (paragraphs 15 to 19). The guidance proposes that this method is relevant to providing for repayment of debt outstanding from before 1 April 2008 and that the borrowing supported by Government Revenue Support Grant be repaid over a period "reasonably commensurate with the period implicit in the determination of that grant". The Regulatory Method continues the arrangements set out in former Regulations, under which non-housing debt was repaid at 4% of the balance outstanding at each year and, after deducting an amount referred to as "Adjustment A" which was introduced by the Government at the start of the prudential system in 2004.

4.6.2. As the local government finance system has evolved, it has become increasingly difficult to relate the Revenue Support Grant received to any particular level of annual debt repayment. Since the business rates reform in 2013/14, there is no component of grant determining an implicit level of support for debt repayment. In addition, total grant is controlled to national totals which have been reduced substantially in recent years, irrespective of the level of "supported" borrowing outstanding. A review undertaken by the Special Interest Group of Municipal Authorities (SIGOMA) calculates, on the assumption that interest costs are fully funded within revenue grant, that by 2015/16 the Government is only funding around 45% of the 4% MRP – i.e. implied grant support for MRP is estimated to be 1.8%; less than half of the original 4% charge .

4.6.3. For this reason, in 2015/16 the Council adapted its MRP policy for repayment of debt outstanding from before 1 April 2007 to a policy that charges for this debt over a term of 50 years, on a straight line basis i.e. equal instalments. This 50 year repayment period is considered a reasonable average assumption for the lives of the assets funded by this expenditure. Whilst it is acknowledged that this method is not specifically recommended in the Guidance for pre April 2007 debt, it is considered prudent by the Section 151 Officer.

4.6.4. Linking MRP to the average useful life of an asset is in keeping with the general principle of achieving a prudent approach set out in the DCLG guidance which is that the profile of MRP charges should reflect the economic benefit the Council gets from using the asset to deliver services over its useful life. This ensures that Council Tax payers are being charged each year in line with asset usage and prevents current taxpayers meeting the cost of future usage or future tax payers being burdened with "debt" relating to assets that are no longer in use.

4.6.5. In 2016/17, the Council's overall Capital Financing Requirement was £1.4bn but this needs to be compared to the overall asset base of £2.9bn. In percentage terms, the debt liability as represented by the Capital Financing Requirement equates to around 48% of the asset base. This is comparable to other similar sized councils where the percentage is typically between 40% to 50% depending on their size and historical debt positions.

4.6.6. In 2015/16, when we introduced the change to charging 2% on a straight line basis rather than 4% on a reducing balance basis, we only applied this charge from 2015/16 onwards. However this means that between 2007/08 & 2014/15 we still charged 4% on a reducing balance basis. The element relating to this period (prior to the policy change in 2015/16) therefore represents a significant over provision, as the early years' MRP provision is substantially more than the 2% proposed charge as result of this review.

4.6.7. An examination of the MRP charges made from 2007/08 reveals that the Council has over-provided MRP during the period 2007/08 to 2016/17. The result of back dating the policy would create an overprovision of £40.2m. This over-provision can be reduced over time so the total provision is brought back in line with the re-profiled MRP schedule. It is, therefore, proposed that the revised methodology should be applied from the start of 2007/08 so that current taxpayers do not meet the cost of future usage or future tax payers being burdened with "debt" relating to assets that are no longer in use.

4.6.8. We intend to release this over provision of the period until 2024/25 so that the MRP charge returns to its normal level by then. We have chosen this period as the current Major Sporting Facilities external debt repayments cease then and the release in provision will smooth the long term revenue budget profile.

4.6.9. We believe this change is reasonable in regard to the average lives of the assets involved (i.e. those incurred before April 2007) whilst recognising the Council's financial transition pressures in the coming few years. It is therefore considered that it would be *appropriate, affordable and reasonable* for the Council to move to such a provision.

4.7. ***Recommendation: To adopt a modified approach to the Regulatory Method to apply a 50 year term to all Government funded borrowing and to adopt the straight line method for calculating debt repayments – effective from 2007/8.***

4.8. <u>Proposal 2: Assessment of Asset Life in relation Capital Expenditure allied to the Streets Ahead Programme</u>

4.8.1. To ensure road and street lighting renewal is comprehensive as possible the Authority has chosen to supplement the investment included in the Streets Ahead PFI contract on a phased basis over the first 5 years of the PFI contract.

4.8.2. The MRP on this supplementary investment is currently aligned with the MRP on the PFI contract itself. That is, the MRP provisions are made over the term of the PFI contract rather than over the economic life of the underlying assets (roads / street lighting). This has the effect of compressing the MRP provisions over a much shorter period, and consequently we believe that current council tax payers are meeting the cost for future usage. This is contrary to our normal practice in terms of using Asset Life as the basis for MRP provisions.

4.8.3. On this basis, it would be more appropriate to balance the costs between current and future tax payers by moving to an asset life basis rather than contract life.

4.8.4. The Authority considers this prudent and recognises that the Authority's maintenance programme enhances the useful lives of such assets by maintaining them in a condition that ensures that the economic benefit derived from those assets lasts for longer.

4.9. ***Recommendation: Apply a 40 year term to road assets and a 20 year term to street lighting assets, unless a more appropriate period is identified and adopt the straight line method for calculating debt repayments.***

5. **Consideration of Options**

5.1. The Council has the following options:-

- Adopt the recommended policy changes (proposals 1 & 2) as outlined above.
- Do a selection of the options outlined above;
- Do not change the existing policy;

6. ***Recommendation: Apply the recommended policy changes outlined in proposal 1 and 2***

7. **Financial Implications**

7.1. There are likely to be significant rebalancing of the MRP charge resulting from the implementation of the change to the Council's MRP policy. However this is a complex, technical area of work that will be reviewed over the next 6-8 weeks in order to produce a final figure for the 2017/18 statement of accounts. It is intended to outline the final position within the final 2017/18 outturn report due to Cabinet in June 2018.

7.2. It should be noted that the Council's external auditor has been consulted on the initial draft of these proposals and will continue to be consulted as the policy is firmed up. Auditor comments on other authorities undertaking similar review exercises have confirmed that it is a matter for the individual Council to determine what is prudent with consideration given to the statutory guidance provided.

8. **Consultations**

8.1. Consultation has been carried out with the Council's Treasury Management advisers, the Council's appointed external auditor and other local authorities.

List of Appendices

A – MRP Policy

Details of Background Papers

Officer Contact: Stephen Bottomley, telephone 2735135

Appendix A – Minimum Revenue Provision Policy Statement

Minimum Revenue Provision (MRP) policy statement

Each year statute requires the Council to charge an amount to its General Fund revenue budget to raise cash to reduce the General Fund element of its CFR. This cash then ensures that the Council can pay down its debts.

The statute requires a minimum amount to be charged, but also allows the Council to charge more if it feels it prudent to do so. This is known as a Voluntary Minimum Revenue Provision (VMRP).

Regulations have been issued by the Department for Communities and Local Government that require the full Council to approve an MRP statement in advance each year and to approve any in-year revisions to the policy. This statement sets out how the Council determines how the MRP will be calculated. Guidance affords a variety of options to Councils, so long as the calculation results in a prudent provision.

The Council is recommended to approve the following MRP statement:

For capital expenditure incurred before 1st April 2008, or which in the future will be Supported Capital Expenditure (expenditure which receives income support from government), MRP will be charged on a flat line basis over fifty years. This will ensure that all debt associated with Supported Capital Expenditure is fully provided for up to the Adjustment A level that is required of us by government within fifty years and better aligns the charges we make to the General Fund with the funding we receive from government. This approach is a prudent way of ensuring the Council can pay down debt in good time. In the event changes to the policy create over provisions, the over provision will be recovered over a prudent period; ensuring that at no point the resultant MRP charge is negative.

The Council will apply voluntary minimum revenue provisions to realign overall charges to the 'regulatory method' where it is considered prudent to do so.

From 1st April 2007, the MRP on all unsupported borrowing will be based on the 'asset life method'. This means that MRP will be based on the estimated useful life of the assets created.

Where it is considered prudent to do so, the Council will adopt an annuity profile for MRP charges under the asset life methodology. Adoption of this approach will be considered on a scheme-by-scheme basis, and will only be used where adoption will result in costs being better aligned to the benefit flows that will accrue from the investment.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. The HRA may opt to make voluntary revenue provisions where it is prudent to do so.

Where appropriate, the Council will defer the MRP related to specific projects until the asset(s) for the project become(s) operational. This is known as an MRP holiday and will allow the Council to align borrowing repayments to the economic benefit generated from those assets.

The Council will also withhold MRP payments related to the acquisition of assets purchased under compulsory purchase orders (CPO) where there is a commitment to pass these assets and their costs onto a development vehicle.

Where capital loans are provided by the Council under section 25 of the 'The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003', the Council will, where it is prudent to do so, align MRP profiles to loan repayments. This will ensure the Council does not unnecessarily charge amounts to its revenue budget.

The Council can at times receive capitalisation directives from the Secretary of State. Where this is the case, the Council's policy will be to provide for MRP as the capitalisation is defrayed, rather than on initial recognition. The 'asset-life' approach will be taken to providing for MRP on capitalized spend, but where there is no discernible asset-life the Council will opt for a 20 year life.

Repayments included in annual PFI or finance leases are applied as MRP.