REVENUE BUDGET & CAPITAL PROGRAMME MONITORING AS AT 31st MARCH 2018

Purpose of the Report

1. This report provides the Financial Outturn statement on the City Council's Revenue Budget and Capital Programme. The first section covers Revenue Budget Monitoring. The Capital Programme is reported at paragraph 28.

REVENUE BUDGET MONITORING

Summary

2. The Council finished the year with an overspend of £2.0m. The outturn by Portfolio is summarised in the table below:

Portfolio	Outturn £000s	Budget £000s	Variance £000s
PEOPLE	238,895	220,951	17,944
PLACE	183,730	185,942	(2,212)
POLICY, PERFORMANCE & COMMUNICATION	3,207	3,426	(219)
RESOURCES	20,779	20,977	(198)
CORPORATE	(444,640)	(431,296)	(13,343)
GRAND TOTAL	**1,973**	**-**	**1,973**

3. In terms of the outturn position of £2.0m overspend, the key reasons are:

- **People** finished the year with an overspend of £17.9m. The key features of this position are:
    - An overspend against Children & Families budgets of £11.6m, including £8.1m reflecting the demand and complexities of need within the Placements budget and £2.5m in Fieldwork Services due to increased transport costs and contact time for children in care.
    - An overspend of £7.3m in Care and Support, due to £9.2m of demand pressures and higher than expected cost increases, and £2.9m of increased activity in home care provision. This is offset by the release of £4.0m of iBCF funding allocated in Spring 2017.
    - There are a number of smaller movements within this position. **Appendix 1** provides a fuller picture on a service-by-service basis.
- In the **Place** Portfolio, the key adverse variances were the failure to deliver planned budget savings (£1.4m), slippage in planned savings (£714k). These are more than offset by staff vacancy savings of £611k, £1.8m of one-off contract cost

reductions, and reductions in running costs of key office accommodation and transport services, of £1.4m and £271k respectively.

- **Resources** reported an underspend of £198k. The key reasons for this are an overspend of £562k following the removal of some advance payment discount on subsequently insourced contracts, delayed savings within Customer Services (£323k) and an under-recovery of income for internal consultancy services (£125k). These are offset by reductions of spend within Central Costs of £830k and within Housing Benefits of £328k.
- **Policy, Performance & Communication** are showing an underspend of £219k. This is due to staffing vacancies, a review of non-essential spend, and an over-recovery of income on the Communications budget.
- **Corporate** are reporting an underspend of £13.3m. This is due to a change to the Minimum revenue Provision policy releasing £5.5m of savings, £2.0m interest charges avoided by postponing required borrowing, £1.2m released from the pension reserve following a lower than expected level of charges, unbudgeted grant income of £0.9m and £3.6m of improvement within the redundancy provision.

4. Fuller details of all reductions in spend and overspends within Portfolios and significant movements from the Quarter 3 Report can be found in **Appendix 1**.

Public Health

5. Services funded by Public Health grant are showing a £824k reduction in expenditure against the original approved budget. Further details of the outturn position on Public Health are reported in **Appendix 2**.

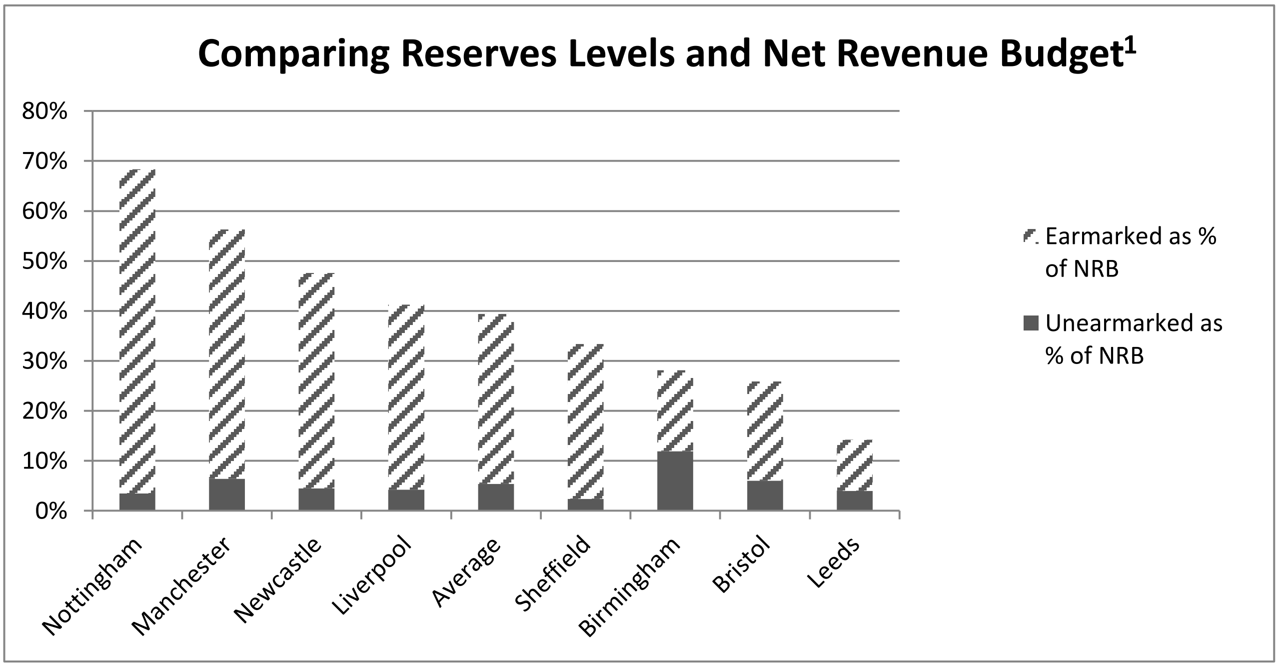
Housing Revenue Account

6. The 2017/18 budget is based on an assumed in year surplus position of £27.0m which is to be used to fund the ongoing HRA Capital Investment Programme. In accordance with the HRA's financial strategy any further in-year funds generated by the account will be used to provide further funding for the future HRA Capital Investment programme.
7. The outturn position is a £3.0m overall improvement from budget. Further details of the Housing Revenue Account can be found in **Appendix 3**.

Unearmarked and earmarked Reserves

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

9. Reserves balances as at 31st March 2018 are estimated to be £171.5m, pending audit scrutiny. These reserves comprise mainly of earmarked reserves and can be seen in **Appendix 4**.
10. Included in the above total is £10.6m for unearmarked reserves this represents just 2.7% of the 2017/18 net budget requirement of £395.5m. This percentage is a slight improvement on last year's 2.4%. This remains below the minimum prudent level recommended by the Executive Director of Resources, mainly as a result of the £2.0m overspend in 2017/18. This reserve is to be returned to the minimum recommended level of 3% of net revenue expenditure during 2018/19. If the reserve is used, it will be replenished to the stated minimum level as soon as practically possible; the Council will always need a minimum level of emergency reserves.
11. It is recommended that the General Fund balance be replenished to at least £12.1 m, representing 3% of the net revenue budget for 2018/19. The s.151 Officer will, within the remit of his authority to ensure appropriate levels of reserves, determine the most appropriate reserve to be used for this purpose, following a review of the adequacy of reserve balances.
12. To add context to Sheffield's reserve position the graph below shows the reserves of the other core cities as a percentage of their Net Revenue Budget.



13. Sheffield's earmarked reserves are slightly below the core cities mean average of 34%, and despite increasing pressures these are still felt to be adequate. Notably, across almost all core cities, unearmarked reserves only make up a small percentage

[1] Reserves levels as closing balance in relevant 2016/17 Statement of Accounts, net revenue comparator taken from MHCLG Revenue Account Budget 2016/17 data.

of revenue reserves. Sheffield's unearmarked reserves are the lowest when compared to Net Revenue Budget.

14. Earmarked reserves are set aside to meet known or predicted future liabilities, such as Business Rates Appeals. These liabilities mean that the earmarked reserves are not normally available to fund the budget. Earmarked reserves also exist because of the need to smooth the significant payments made on programmes such as the Major Sporting Facilities (MSF) and PFI schemes over the 20 year plus terms of the underlying agreements. In both cases the Council currently has a temporary surplus. However, over time this position will change, and future payments will be higher than our resources, so the reserves will be needed to support their primary purpose.
15. During 2016/17 £65.1m was used temporarily to support the Pension Deficit early payment enabling the delivery of £5m of savings over the period 2017/18 to 2019/20. These funds will be fully repaid by 2019/20. These repayments can be seen in a number of the earmarked reserve movements for 2018/19 and account for over £21.9m of the increase in earmarked reserves.
16. Further details on reserves and their use can be found in **Appendix 4**.

Insurance Funds

17. A review of the Insurance Account has been undertaken to identify the level of fund required. This includes:

- Known outstanding liabilities.
- Incurred but not reported liabilities (IBNR)
- Claims previously paid by Municipal Mutual Insurance (one of the Council's Insurers who went in to a form of receivership in the 1990's)
- Emerging claims
- Uninsured asbestos related claims.

18. The Directors of MMI 'triggered' the scheme of arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006). Ernst Young are now responsible for the management of the MMI's business, affairs and assets in accordance with the terms of the Scheme.
19. The Scheme provides that following the occurrence of a Trigger Event, a levy may be imposed on all scheme creditors. Ernst Young have carried out a review of assets and liabilities of MMI and to date a levy of 25% has been paid. The levy will continue to be reviewed at least once every 12 months.
20. The Council currently has a potential claw back of £3.7 with MMI and £600k relating to South Yorkshire Residuary Body (SYRB).
21. The Insurance Account as at 31 March 2018 has £21.8 million; outstanding liabilities as at 31 March 2018 are £22.4 million. The Insurance Account is therefore 97% funded as at 31 March 2018.

Corporate Risk Register

22. 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.

Annual Treasury Management Review

23. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury review of activities, and the actual prudential and treasury indicators for 2017/18. This review is needed to meet the requirements of both the CIPFA Code of Practice on Treasury Management (the code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). During 2017/18 the Full Council received the Annual Treasury Strategy, whilst Cabinet were presented with the Outturn Report. Reports were also taken to the Cabinet Member for Finance during the year.
24. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
25. The Annual Treasury Management Review is attached as **Appendix 6**.

Requests for Project Funding

26. The CRM Upgrade Project aims to implement upgrades to how the Council deals with customers across all Council services and across various media. The proposed upgrade option is the best tool to enable us to seamlessly integrate with our new web platform and will provide the basis for a fundamental re-design of our services around customer need in a way that meets 21st century expectations of our customer service.
27. In total, the Project is requesting £746k of funding, split between General Fund (£365k) and Housing Revenue Account (£381k) sources. This request is described in more detail in **Appendix 7**. It should be noted that this request for funding relates to future activity, and as such does not impact on the 2017/18 Outturn position described elsewhere in this report.

Capital Summary

28. The approved capital programme budget for 2017/18 at 31 March 2018 was £269.8m. The overall outturn of expenditure against this approved budget was £246.5m. This is £23.9m lower than the Outturn forecast in Month 9.
29. Further monitoring of the Capital Programme is reported in **Appendix 8**.

Implications of this Report

Financial implications

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

Equal opportunities implications

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

Legal implications

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

Property implications

33. Subject to the description of the Capital Programme within **Appendix 8**, there are no other property implications arising from the recommendations in this report this report.

Recommendations

34. EMT are asked to:
    (a) Note the updated information and management actions provided by this report and attached appendices on the 2017/18 Revenue Budget Outturn.
    (b) Note the recommendation of the Executive Director of Resources and Statutory Finance Officer, at Paragraph 12 above, that the General Fund reserve is returned to the minimum recommended level of £12.6m (approximately 3% of net revenue expenditure) during 2018/19.
    (c) Review and consider for approval the request for project funding, and associated recommendations, described in **Appendix 7**.
    (d) In relation to the Capital Programme, note the Outturn position described in **Appendix 8**.

Reasons for Recommendations

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

Alternative options considered

36. 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 31st MARCH 2018

People Portfolio

Summary

1. As at quarter 4, the Portfolio has a full year outturn of an over spend of **£17.9m** on **Cash Limit budgets** and an over spend of **£1.0m** on **DSG budgets**. The key reasons for the outturn position on the cash limit, presented service-by-service, are:

Care & Support : Learning Disabilities (forecast overspend of £9.2m):

- Purchasing LD is showing an over spend of £9.4m. This is made up of £63.4m of gross client expenditure net of £18.2m income against a net budget of £35.8m. The overspend at Month 0 (annualised costs at Month 12 16-17, plus forecast growth less expected savings) was £8.6m therefore we have seen additional costs above the original forecast of approximately £700k in 17-18.
- Non-purchasing LD is showing an underspend of £199k. This is made up of an overall overspend across LD In-house Provider Services mainly due to slippage in achievement of savings, net of underspends in Sharing Lives (declared as saving in 18-19) and Future Options staffing due to ongoing vacancies.

Care & Support: Long Term Care (LTC) Purchasing (overspend of £2.9m):

- 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, and also reduced difference between planned and actual hours (increasing costs as more staff required for more overall contact time).

iBCF Funding (contribution of £4m):

- 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 Learning Disabilities, pressures in Mental Health and the assumed staffing pressure from the restructuring of social care into Localities.

Community Services (underspend £17k)

- Library Services – balanced to budget
- Locality Management - £56k underspend on pay
- Employment and Skills - £238k underspend on 100 Apprentices
- Family and Community Learning - £308k overspend on Training Units

Children & Families (over spend of £11.6m)

- Placement budgets - £8.1m 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 - £2.5m over spend mainly due to an over spend of £1.5m in non-staffing budgets, due to increased transport costs and contact time for children in care and £545k overspend on fieldwork staffing costs, offset by ESG income in Business Strategy.
- Health Strategy - £1m forecast overspend due to £1m overspend on Short Breaks and Direct Payments due to delay in anticipated savings.
- Provider Services - £717k overspend, including £873k on Children's Residential Homes, partially due to unachieved savings target offset by reduced spending on staffing in Adoption and Fostering services.
- Prevention and Early Intervention - £795k underspend mainly due to £379k planned underspend on contracts and the remaining underspend on staffing.

Commissioning, Inclusion and Learning Services (overspend of £334k):

- Commissioned Mental Health Services - £1.3m overspend. This is due to unachieved savings across all purchased provision of £1.3m agreed between SCC and the CCG.
- Partnership Funding - £535k underspend due to delayed Dementia and Carers Break Contracts.
- Housing Related Support - £307k underspend due to planned project and vacancy slippage.

Business Strategy (underspend of £1.3m):

- Business Strategy Operational Budgets - £301k underspend. This is largely due to underspends on staffing of £484k and increased traded income of £214k, partially offset by overspends on non-staffing of £180k on IT licence costs and legacy issues and £228k overspend on SCAS, the majority of this relates to non-staffing costs in bereavement services.
- Portfolio Wide Budgets - underspend of £394k. This is due to a £275k overspend in the home to school transport budgets, due to continued increase in demand and increases in costs. This is offset by an underspend of £431k against staffing budgets and £111k on facilities management following a review of non-essential spend.
- Additional ESG grant of £545k due to the number of academy conversions being less than anticipated.

Financial Results

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 9
BUSINESS STRATEGY - PEOPLE	11,981	13,274	(1,293)	⇩
CARE & SUPPORT	111,846	104,590	7,256	⇧
CHILDREN & FAMILIES	78,880	67,251	11,630	⇧
COMMUNITY SERVICES	8,969	8,952	17	⇔
COMM'G INCLUSION&LEARNING SERV	27,220	26,886	334	⇩
GRAND TOTAL	**238,895**	**220,951**	**17,944**	⇧

DSG

2. The following is a summary of the position on DSG budgets at month 12:

	Outturn Month 12 £000	FY Variance Month 9 £000	Diff Outturn to Month 9 £000
Business Strategy	299	674	(375)
Children and Families	(74)	(82)	8
Commissioning, Inclusion and Learning Services	797	994	(197)
Community Services	6	4	2
	1,028	**1,590**	**(562)**

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

Business Strategy (over spend of £299k)

- Transport – over spend of £323k in the transport budgets, this is due to continued increase in demand and increases in costs.
- Special School Complex Case Fund – overspend of £367k, due to anticipated additional placement funding required from September 2017 to March 2018.
- Schools PFI Contracts – underspend of £226k, mainly due to rates and utility costs being lower than anticipated.
- Pension - £143k underspend on pension costs, due to the number of people eligible pensions naturally reducing each year.

Commissioning, Inclusion and Learning Services (over spend of £797k)

- SEND - £856k 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 - £121k over spend due to delays in anticipated savings. This is being addressed through the Redesign of Education Services Change Programme.

- These overspends are partially offset by smaller underspends within the service.

Commentary

4. The following commentary reports on the main variances from the quarter 3 position, as shown above under Financial Results.

Business Strategy

5. A £1.3m underspend relating to cash limit and a £299k over spend on DSG. This is an improvement of £652k from quarter 3 on cash limit and an improvement £375k on the DSG quarter 3 position.

6. The main reason for the improvement in the cash limit position of £652k is due to the receipt of additional Education Services Grant (ESG) of £549k. The level of academisation up to August, when the grant ended, was lower than had been anticipated at budget setting, so more income was received for maintained schools. This income is included in the business case for Fieldwork staffing and offsets the overspend shown in Children and Families.

7. The main reason for the improvement in the DSG overspend by £375k is due to an underspend of £226k in school PFI contracts, mainly due to utility costs being lower than previously anticipated. The remaining improvement is due to small improvements across the service.

Care and Support

8. A forecast over spend of £7.3m shown on the table above which is a worsened position of £2.1m on the reported Quarter 3 position.

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

   - A worsened movement of £1.7m following a review of the use of the iBCF funding, some of the assumed 2017/18 allocation has now been carried forward to fund the intended transitional activity.
   - Access and Prevention Service favourable movement £258k due to inclusion delays in recruitment and vacancies in the reablement service and a Transport Grant of £50k to fund services in First Contact.
   - Long Term Care worsened position £824k mainly due to increased pressure on Home Care costs.
   - Learning Disabilities worsened position £168k mainly due to increased pressure on the purchasing budget from increased package costs and reduction to CHC income previously forecast.

- Safeguarding improved £133k over the quarter due to release of previously held partnership contingencies and under spends against activity

- Care and Support Commissioning improved £65k mainly due to an expected charge not materialising.

Community Services

10. An over spend position of £17k which is improved by £114k since Quarter 3.
11. The movement is mainly due to the Libraries' increased income and decrease in spend as a result of moratorium on non-essential expenditure, and a small reduction in Employment and Skills Service expenditure.

Children & Families

12. A £11.6m over spend relating to cash limit and a £74k under spend on DSG. This is an increase in the overspend of £538k from quarter 3 on the cash limit and is consistent on DSG with quarter 3.
13. The main reason for the movement on cash limit is within **Fieldwork Services** – due to an increase of £549k from the quarter 3 position. This reflects an increase in fieldwork staffing costs and is in line with the investment plan for fieldwork staffing and is offset by the additional ESG income within Business Strategy.
14. There are no significant movements in the DSG budgets for Children and Families.

Commissioning, Inclusion & Learning Service

15. A £334k overspend relating to cash limit and a £797k over spend on DSG. This is an improvement of £258k from quarter 3 on cash limit and an improvement of £197k on DSG.
16. The £258k improvement on cash limit budgets is mainly in the Commissioning budgets, the improvement is mainly due to month 12 costs being lower than previously anticipated.
17. The £197k improvement on the DSG position is due to improvements across the service following a review of non-essential spend and staff vacancies.

Proposed Budget Virements for Quarter 4

18. None

Carry Forward Requests

19. None.

Place Portfolio

Financial Results

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 9
BUSINESS STRATEGY & REGULATION	29,117	28,244	873	⇧
MAJOR PROJECTS	110	127	(17)	⇔
CULTURE & ENVIRONMENT	89,786	90,847	(1,061)	⇩
HOUSING GENERAL FUND	4,157	4,513	(356)	⇩
CITY GROWTH	33,104	32,864	240	⇧
TRANSPORT AND FACILITIES MGT	27,456	29,347	(1,891)	⇩
GRAND TOTAL	**183,730**	**185,942**	**(2,212)**	⇩

Summary

20. The Place Portfolio provisional revenue budget outturn is £2.2m under budget. The key reasons for this outturn position are:

- **Business Strategy & Regulation** is £873k over budget due to slippage in the delivery of planned savings on ‘Place Change Programme 1’.
- **Culture & Environment** is £1.0m under budget, due to contract and other service cost reductions of £1.8m offset by slippage in planned savings on the Streets Ahead Programme of £714k.
- **Housing General Fund** is £356k under budget largely from staff vacancy savings and other cost reductions.
- **City Growth** was £240k over budget largely due to slippage in the delivery of planned savings on ‘Place Change Programme 1’ of £495k offset partially by staff vacancy savings in Property and Planning Services.
- **Transport & Facilities Management** is £1.9m under budget, largely from reductions in the running costs of key office accommodation (£1.4m) and transport services (£271k).

Commentary

21. The overall position for the Portfolio shows an improvement of £1.2m since month 9. This is largely due to a number of cost reductions within the Transport & Facilities service and further contract cost reductions within the Culture & Environment service.

Carry Forward Requests

22. None.

Resources Portfolio

Summary

23. At month 12 the Portfolio showed an under spend of £198k. The key reasons for the outturn position are:

- An over spend of £562k on Rebates & Discounts from Corporate contracts following the insourcing and removal of the previously received advance payment discount on some contracts.
- An over spend of £323k on Customer Services mainly due to non-delivery of £150k of 2016/17 BIPs savings for the Customer Experience programme, and delays in implementing the 2017/18 BIPs saving of £141k. The approved staffing reductions have been made through voluntary redundancies, but will only achieve part year savings in 2018/19.
- An over spend of £125k on BCIS mainly due to an under recovery of income for internal consultancy services.

These overspends are offset by:

- A reduction in spend of £840k in Central Costs. This is made up of a £373k reduction against Employee Pension Costs, a £147k reduction in the Corporate Democratic Core in respect of the HRA charges, and a £236k over recovery of internal recharges for the use of ICT services
- A reduction in spend of £328k on Housing Benefits. This is on a demand driven expenditure budget of approximately £178m, and as such represents less than a 0.2% variance.

Financial Results

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 9
BUSINESS CHANGE & INFORMATION SOLUTIONS	(8,042)	(8,167)	125	⇔
CORPORATE REBATES & DISCOUNTS	(1,397)	(1,959)	562	⇩
CUSTOMER SERVICES	7,265	6,942	323	⇔
FINANCE & COMMERCIAL SERVICES	3,886	3,896	(10)	⇩
HUMAN RESOURCES	492	484	8	⇧
LEGAL SERVICES	3,530	3,551	(21)	⇔
RESOURCES MANAGEMENT & PLANNING	175	192	(17)	⇔
TOTAL	5,910	4,939	971	⇧
CENTRAL COSTS	16,027	16,867	(840)	⇩
HOUSING BENEFIT	(1,157)	(829)	(328)	⇩
GRAND TOTAL	**20,779**	**20,977**	**(198)**	⇩

Commentary

24. This position is an improvement of £236k on the position reported at Month 9. The key reasons for this movement are;

- A £310k improvement within Central Costs. This was mainly due to reserves movements relating to the ending of the discount period for banking charges of £112k, £40k Refine Creditors costs, alongside a £39k improvement on employee pensions, a £37k improvement in internal recharges for the use of ICT services and £55k of credits on ICT contracts.
- A £328k improvement on Housing Benefits, referred to above.
- A £226k worsening on Human Resources due to the cost of the Resource Link system for the October - March period after the service had in-sourced.
- The remainder of the movement is made up of smaller movements within the service.

Policy, Performance and Communications Portfolio

Summary

25. At month 12 the Portfolio showed an under spend of £219k. The key reason for the forecast outturn position is:-

- A reduction in spend of £151k in relation to the Policy and Improvement Service due to staffing vacancies, alongside removing non-essential spend.
- An over recovery of income of £52k on the Communications budget.

Financial Results

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 9
ACCOUNTABLE BODY ORGANISATIONS	20	20	0	⇔
POLICY, PERFORMANCE & COMMUNICATION	3,201	3,420	(219)	⇔
PUBLIC HEALTH	(14)	(14)	0	⇔
GRAND TOTAL	**3,207**	**3,426**	**(219)**	⇔

Commentary

- This position is an improvement of £48k on the position reported at Month 9. The key reason for this movement is the over recovery of income on the Communications budget.

Corporate Transactions

Summary

26. As at month 12, the Corporate portfolio is showing a £13.3m underspend. The Corporate budget is made up of the following.

- Corporate Expenditure: Council 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.

27. The underspend is made of the following factors;

- A change to the Minimum Revenue Provision policy, releasing £5.5m of savings
- A £3.6m of improvement within the redundancy provision, due to the successful use of natural wastage in staff posts causing redundancies to be lower than forecast
- £2m of interest costs avoided by postponing required borrowing.
- £1.2m released from the pension reserve due to a lower level of charges than was expected.
- Unbudgeted grant income of £0.9m

Commentary

28. The current position is a £3.5m improvement since Month 9, which is a reflection of £0.9m of un-budgeted grant income and £2.6m of improvement within the redundancy provision.

Financial Results

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

Service	Outturn £000s	Budget £000s	Variance £000s	Movement from Month 9
CAPITAL FINANCING	25,367	33,163	(7,796)	⇔
CORPORATE ITEMS	(470,006)	(464,459)	(5,547)	⇩
GRAND TOTAL	(444,640)	(431,296)	(13,343)	⇩

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PUBLIC HEALTH BUDGET MONITORING AS AT 31st MARCH 2018

Purpose of the Report

1. To report on the 2017/18 Public Health grant spend across the Council for the month ending 31st March 2018.
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 12 the overall position was an underspend of £824k which is summarised in the table below.

Portfolio	Full Year Expenditure	Full Year Expenditure Budget	Full Year Variance as at M12	Full Year Variance as at M9	Movement from Prior Period
PEOPLE	29,664	30,074	(410)	(508)	98
PLACE	2,948	3,014	(66)	3	(69)
DIRECTOR OF PH	1,623	1,971	(348)	(290)	(58)
Total	34,235	35,059	(824)	(795)	(29)

5. Key reasons for the forecast positions spend are:

- £410k underspend in People mainly as a result of underspending in Mental Health Commissioning Partnerships and Grants, which largely offset a demand-led pressure on supervised consumption within the Drug and Alcohol, and Domestic Abuse Coordination Team (DACT), and slippage of recruitment and contracts (including Carers Breaks).
- Place underspent by £66k, representing an underspend on Smoke Free contracts, partially offset by an overspend on the Stop Smoking Contract.
- £348k underspend in Director of Public Health as a result of staffing vacancies, support services underspends and, contract slippage and liabilities that have not yet materialised on GP Healthchecks Contracts.

6. Key reasons for significant quarterly movements are:

- The adverse movement in People is mainly the DACT supervised consumption demand led pressure reffered to above.
- The underspend in Place is largely a result of a reduced overspend on the Stop Smoking Contract and a increased underspend on the Smoke Free contracts.
- Further underspend in Director of Public Health is as a result of a greater over-recovery of income and increased vacancy savings.

HOUSING REVENUE ACCOUNT MONITORING AS AT 31st MARCH 2018

Purpose of this Report

1. To provide a summary report on the HRA 2017/2018 revenue budget for the year ending 31 March 2018, and agree any actions necessary.

Summary

2. The HRA Business Plan is based on the principle of ensuring that investment and services required for council housing is met by income raised in the HRA.
3. The HRA income and Expenditure account provides a budgeted contribution towards funding the HRA capital investment programme. As at month 12 the full year outturn position is an overall improvement of £2.9m from this budgeted position. As such the funding contribution to capital investment programme will be revised to take this into account. This is in line with the HRA Business Plan which sets out the Council's plans and priorities for investment in Council housing over the next five years. Capital investment continues to be made on improving Council housing with the focus on new roofs, improvement to communal areas as well as building new council housing.
4. The main areas affecting the outturn position include lower than budgeted rental income of £459k and increased repairs and maintenance costs of £429k which includes additional fire safety work carried out during the year. There is an overall reduction in running costs of which £2.0m relates to savings on staffing costs and vacancies as the service restructures. Whilst there have also been planned savings and other forecast underspends on operational and project costs, some of these relate to the timing of expenditure and are so partly offset by a transfer to reserves of £2.3m for project and other costs expected to materialise in 2018-19. Finally there is a reduction of £788k on loan interest payments due to revised borrowing assumptions.

Financial Results

Housing Revenue Account (excluding Community Heating)	FY Outturn £000's	FY Budget £000's	FY Variance £000's
1.NET INCOME DWELLINGS	(144,461)	(144,920)	459
2.OTHER INCOME	(6,413)	(6,407)	(6)
3.REPAIRS & MAINTENANCE	33,974	33,545	429
4.DEPRECIATION	23,587	23,587	-
5.TENANT SERVICES	46,512	51,932	(5,420)
6.INTEREST ON BORROWING	14,481	15,269	(788)
7.TRANSFER TO RESERVES	2,345	-	2,345
8.CONTRIBUTION TO CAP PROG	29,975	26,994	2,981

Community Heating

5. The budgeted position for Community Heating is a draw down from Community Heating reserves of £237k. As at month 12 the position is a draw down from reserves of £425k, this represents an unfavourable movement of £188k. This is mainly due to customers purchasing less heat than expected partly offset by reduced energy costs.

Community Heating	Outturn £000's	Budget £000's	Variance £000's
Income	(2,211)	(2,448)	237
Expenditure	2,636	2,685	(49)
Total	**425**	**237**	**188**

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. These changes 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 programme continues to be a significant risk to the HRA. The risk to income collection will become increasingly clear 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 assess the implications of developments as they unfold.

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

Description	Balance at 31/03/17 £000	Movement in 2017/18 £000	Balance at 31/03/18 £000	Movement in 2018/19 £000	Balance at 31/03/19 £000	Explanation
Non-earmarked Reserves						
General Fund Reserve	9,687	(1,031)	8,656	(150)	8,506	The Council's working balance: used as a last resort for emergency spend. The balance as at 31st March 2018 at just 2.7% of net spending, benchmarks low compared to most Local Authorities. This reserve is to be topped up to £12.6m as an agreed minimum.
	9,687	**(1,031)**	**8,656**	**(150)**	**8,506**	
Invest to Save Post 2015	1,482	1,410	2,892	713	3,605	The reserve replaces the original Invest to Save and will used to fund new transformation projects aimed at delivering long term revenue savings.
PFI Reserve	(349)	(639)	(988)	15,688	14,701	The PFI reserve exists due to Government funding being received in advance to pay future years' liabilities. This income is set aside in a reserve until needed to ensure sufficient funds are available to cover the cost of contracts in future years. During 2016/17 £17.1m of these reserves were used temporarily to fund the Pension Deficit early payment to deliver £5.0m of savings. These funds will be fully repaid during 2018/19 when they will be needed for their primary purpose
Highways PFI Reserve	15,231	(1,607)	13,624	(5,622)	8,002	
Total PFI Reserve	**14,883**	**(2,245)**	**12,637**	**10,067**	**22,703**	
Major Sporting Facilities	**41,034**	**(11,165)**	**29,869**	**(5,710)**	**24,159**	The Major Sporting Facilities (MSF) reserve exists because of the need to smooth the future significant payments due to Sheffield City Trust (re: Ponds Forge, the Arena, Don Valley Stadium and Hillsborough Leisure Centre).
New Homes Bonus	**11,567**	**(4,818)**	**6,749**	**0**	**6,749**	This reserve is earmarked to support economic development across the City.
Insurance Fund Reserve	**11,102**	**110**	**11,212**	**(2,000)**	**9,212**	This reserve is set aside to cover potential insurance claims made against the Council.
Public Health	**1,032**	**391**	**1,423**	**0**	**1,423**	During 2013/14 the DoH allocated Public Health Grant to enable local authorities (LA) to discharge their new public health responsibilities. Grant conditions for this funding requires the LA to transfer any unspent funds to reserves for use in future years.
Childrens and Adults Social Care	**6,651**	**9,347**	**15,998**	**(7,057)**	**8,941**	These Reserves are held are held to deal with transforming Social Care in Sheffield to better meet the much publicised challenges facing the sector and to deal with unforeseen costs. Better Care Funding for transforming Social Care provision accounts for £6.4m of the increase during 2017/18.
Business Rates	**1,679**	**17,426**	**19,105**	**1,019**	**20,124**	The Business Rates Reserve is required to cover potential future successful appeals against business rates. An increase in this reserve of £17.4m is inflated by £13.5m of funds repaying early payment of pensions.
Other earmarked	**36,403**	**24,610**	**61,013**	**7,732**	**68,745**	Other Earmarked reserves include funds which are set aside to cover predicted liabilities such as redundancies, Equal Pay claims, risk within the borrowing strategy and items earmarked for use by particular services. 2017/18 these reserves increased by £24.6m, the most significant movements included £8.4m repaid for previous early payment of pension deficit and £4.8m put into a reserve for future borrowing costs.
Total Earmarked Reserves	**125,833**	**35,066**	**160,898**	**4,764**	**165,661**	
Total Revenue Reserves	**135,520**	**34,035**	**169,554**	**4,614**	**174,167**	

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CORPORATE RISK REGISTER
AS AT 31st MARCH 2018

1. This Appendix provides a brief overview of the main financial risks facing the Council in 2018/19 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

2018/19 Budget Savings & Emerging Pressures

2. 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 savings over the term 2011-18, and furthermore the backdrop of continuing reductions in Government grant from 2018/19 onwards.
3. In the business planning round for the year 2018/19, 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

4. The Council currently maintains a substantial but manageable under borrowed position (i.e. we have used reserves of cash to cash-flow capital spend, rather than borrow externally) to help support the revenue budget and mitigate residual counterparty default risk on cash investments. In operating with an under borrowed position the Council exposes itself to interest-rate risk. This risk is exacerbated by the uncertainty created by the on-going Brexit negotiations. Recognising this, our Treasury Management function maintains 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

5. 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.
6. 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 March 2018, there were still over 750 properties relating to the 2010 valuation list with a rateable value of approximately £115m under appeal in Sheffield.
7. 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 2017/18 to mitigate the loss of income as a result of

successful appeals. Actual trends on appeals were monitored in 2017/18, with any revised estimates of the impact of appeals forming part of the 2018/19 budget process.

8. 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 was delayed for 2 years but came 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, this has been taken into account when compiling the 2018/19 budget.
9. 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. We have raised this issue with the Valuation Office and will continue to monitor the situation.
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.
11. There are two other main risks to business rates within the city, these are the ongoing legal challenge to the status of ATM's and imminent extension to Meadowhall. Although the case for ATM's is currently settled in our favour, there is still the risk that this case will be taken to higher courts. The redevelopment of Meadowhall will add a significant extension to the existing structure. This extension should realise a boost in business rates in the long term however we expect to see a large number of appeals lodged whilst building work is in progress.

Implementation of savings proposals

12. The risk of delivering savings in 2018/19 in specific areas such as adults' and children's social care is considerable, given the increasing demand pressures and the levels of savings that have been achieved in previous years. To mitigate this, officers are working on the safe and legal implementation of budget proposals by:

(a) Ensuring that there is a thorough understanding of the impact of proposals on different groups and communities, including undertaking Equality Impact Assessments for budget proposals and discussed with Cabinet Members;

(b) Carrying out appropriate, meaningful consultation activity with affected communities and stakeholders, and ensuring that where the proposal affects a supplier or provider, that they undertake appropriate consultation and equalities work with service users; and

(c) Discussing budget proposals with affected members of staff in advance of them being made public, and putting in place MER processes where required, in consultation with HR.

Medium Term Financial Analysis

13. 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 MTFA 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.
14. 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 £69.1m including 2018/19.
15. Prior years' planning had proceeded on the basis of 100% Business Rates Retention implemented in the year 2019/20. The policy announced in the Provisional and Final Local Government Finance Settlement 2018 (Dec '17 and Mar '18 respectively) was for 75% retention to be implemented by 2020/21. It is expected that this increase in retained rates will be matched by reductions in other grant funding, and thus be of no overall impact to the Council's net financing position.
16. 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 given 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

17. 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.
18. 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 crystallise, the potential liability could be much higher.

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

Economic Climate

20. There is potential for current adverse economic conditions to result in increased costs (e.g. increased homelessness cases) or reduced revenues.
21. The Council seeks to maintain adequate financial reserves to mitigate the impact of unforeseen circumstances.

External Funding

22. 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.
23. 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.
24. 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.
25. The result of the referendum on EU membership does not in the short term change the risk profile of EU grants.

Treasury Management

26. 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.

27. 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 2018/19 to ensure we have the ability to respond appropriately to market volatility.
28. 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.
29. 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 during 2017/18 have been siginificant improvements to the handling of card data.
30. 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

31. 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.
32. 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 2022 or later.

33. 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.
34. 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.
35. 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

36. 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.
37. 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 2018/19 this cost to the Council is estimated at around £250k and remains a risk for any future conversions, especially with the expansion of the academy conversion programme.
38. As part of transition to a National Funding Formula, when all funding allocations to schools will be directly managed by Education Funding Agency , 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 has been an increase in demand and costs for services for children social care, both in terms of placement costs and fieldwork staffing and support costs.
40. A number of transformational projects have been put in place to manage the increasing demand and costs within available resources. These include preventing children coming into care and ensuring appropriate family based services, thereby

avoiding the need for high cost, out-of-city placements. Implementation of these programmes is contingent upon cross service and cross-portfolio working.

People Risks – Adult Social Care

41. In 2018/19 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..
42. In 2018/19 it is proposed to enter a pooled budget arrangement with the Clinical Commissioning Group and Sheffield Health and Social Care Foundation Trust to 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.
43. For 2018/19 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.
44. 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.
45. For 2018/19 there is a risk that providers will further seek to increase their fees, given the current level of over spend on the adult social care budgets this will cause increased pressure.

Place Risks

2018/19 Revenue Budget savings

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

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

on a review of all the other services seeking a business-like approach to service delivery seeking to reduce cost or maximise income. Realising the efficiencies and opportunities within this review is crucial to delivering the current Place savings targets. The review is underway and requires swift implementation, along with a number of other strategic interventions, if the necessary revenue budget savings are to be realised in 2018/19 and future years. Failure to so do will very probably create an overspend pressure for the Council.

48. In light of the above risks, a review of waste services has taken place with a staged strategy agreed. As with any service change, there is a risk to the continuity of service delivery and in the longer term there is a potential financial risk if the expected investment does not result in better value services. The Council is close to completing a revised deal with its strategic partner which will deliver a revised service at a sustainable level of cost.

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

50. £1.9m of the 2017/18 budget saving initiatives had not been achieved during 2017/18. These will roll forward to 2018/19 as part of the base budget and create an immediate pressure in that and future years unless these are delivered or a sustainable mitigating cost saving can be identified. The necessary action was taken in 2017/18 to ensure approximately £0.8m of the required savings should be deliverable from the start of 2018/19.

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

52. 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

53. 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. These changes 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:

(a) **Welfare Reform /Universal Credit**: the Government's welfare reform programme 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.

(b) **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.

(c) **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 assess the implications of developments as they unfold.

54. 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

55. There is a risk of 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.

Capital Programme Risks

<u>Project Cost Control</u>

56. 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. 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

57. 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 and Community Infrastructure Levy. Along with capital receipts these funding streams form key elements of the Growth Investment Fund. Any reduction in these funding streams will limt the council’s investment capacity.

Olympic Legacy Park

58. 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.

Heart Of the City 2 (formerly Sheffield Retail Quarter)

59. The Council committed to incur around £62m to acquire land and carry out initial feasibility work to develop a plan for the retail quarter in the city centre. A further budget of £27m was approved for the appointed development manager to take forward the pre-construction phases of the scheme.
60. The Council has also approved a further £89m for the construction of the first building and associated public realm. The office accommodation of the building has been pre-let to HSBC on a 25 year lease, with options to exit at years 10 and 15. This means the Council carries the longer term vacant property risk on the office and also on a more periodic basis for retail and food and beverage units created as shorter leases expire.
61. The route for delivery of the remainder of the Heart of the City II has changed since originally approved. We will no longer be looking to deliver the scheme as one “big bang” corporate development and then be reliant on a single developer. It is envisaged that delivery will now be done via an incremental measured block by block approach, working within the approved masterplan, which can be delivered comprehensively over time but not necessarily by a single developer and/or the Council. This approach mitigates the Council’s risk and financial exposure and delivers momentum.
62. This phased approach to delivery also allows for future changes in the scheme to reflect changes in shopping habits/behaviours and the expectations of shoppers and users of the city centre.

63. The remainder of the £27m budget is now allocated across the development blocks to complete its own pre-construction phase. On completion of that phase further funding will be sought through the capital approval process to develop the properties.
64. The scheme is being funded through prudential borrowing which will be repaid primarily from the rental value created from the various types of property and 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. The long term impact of the phased delivery has been built in to the Medium Term Financial Strategy.
65. A programme of development of this size carries with it significant levels of risk across a number of areas. These risks are amplified because of the length of the development programme and because of the uncertainties caused by the rapidly changing retail landscape and the unknown effect of Brexit.
66. In order to mitigate those risks stringent governance will be exercised over the progression of the scheme so that additional cost commitments will only be made if there is tangible evidence that scheme has positively achieved its pre-conditions and that the demand, rental levels and costs can be evidenced to be in line with or an improvement on base assumptions.

Schools' Expansion programme

67. 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 £21m in 2018/19 after mitigating action. In subsequent years it expects to receive sufficient funding to repay the cash flow by 2021/22.
68. 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.
69. 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.
70. 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.

Annual Treasury Management Review 2017/18

Introduction

1. This report provides an update on the performance of the Treasury Management (TM) function and reviews compliance with the Treasury Management Strategy (TMS). The TMS, agreed by Council each year, details how TM managed cash requirements, investments, and the need for debt to fund the Council's capital programme.

2. Assessment of the performance is based upon indicators which are largely governed by the 'Prudential Code' set by the sector's accounting body – Chartered Institute of Public Finance and Accountancy (CIPFA) – and approved by Government.

Recommendation

3. Cabinet is asked to consider the 2017/18 Treasury Management outturn report, and ask that it be forwarded to Council, in compliance with CIPFA's Code of Practice on Treasury Management (the Code).

Background

4. The Council is required, under the Local Government Act 2003, to produce an annual review of TM activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

5. During 2017/18, the Full Council received the annual TMS, whilst Cabinet were presented with the 2016/17 Outturn Report. A Mid-Year Report was also issued to the Cabinet Member for Finance.

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

7. Training on treasury management issues was provided to Members on the 13th March 2018.

The Strategy for 2017/18

8. The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before March 2020.

9. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. In this scenario the treasury strategy was to minimise new borrowing, to avoid the cost of holding higher levels of investments and the associated cost of carry (i.e. the difference between the higher rates of interest we pay on the amounts we borrow, compared to the interest we earn on our investments), and to reduce counterparty risk.

Key Points

- During the year, SCC borrowed £75m and repaid £15m of short term borrowing taken for short term cash flow purposes, and a further £2m of maturing debt was repaid without being replaced.

- The Council operated within the Prudential Indicator Limits for 2017/18 set by the authority (see annex for details of limits).

- A comparison of the opening and closing debt and investment positions is shown below.

Authority	31st March 2017 Principal	31st March 2018 Principal
Gross Capital Financing Requirement (CFR)	£1,414m	£1,503m
PFI and other Long Term Liabilities	£426m	£410m
Net CFR (excluding PFI & LT Liabs)	£988m	£1,093m
Total debt	£747m	£800m
Over / (under) borrowing*	(£241m)	(£293m)
Total investments	£85m	£90m
Net debt	£662m	£710m

** Under borrowing represents the difference between the underlying need to borrow for capital purposes represented by the Capital Financing Requirement (CFR) and the amount we have actually externally borrowed. It therefore represents the borrowing we have funded from cash generated internally (for example from grants received in advance of need). If the level of cash diminishes, we would borrow externally to replace it, reducing our under-borrowing. Under-borrowing does not represent additional revenue or capital resources available to the Council.*

The Economy and Interest Rates

10. During 2017, there was a major shift in expectations in financial markets in terms of how soon the Base Rate would start to rise rising.

11. The UK economy surprised with strong growth in the second half of 2016, but growth in 2017 was disappointingly weak in the first half of the year. Growth was the slowest for the first half of any year since 2012. The main reason was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases.

12. Consequently, the Service sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure; however, growth did pick up modestly in the second half of 2017. Consequently, during the autumn of 2017, market expectations rose significantly leading the Monetary Policy Committee (MPC) to raise the Base Rate. The 2 November MPC quarterly Inflation Report meeting duly raised the Base Rate from 0.25% to 0.50%.

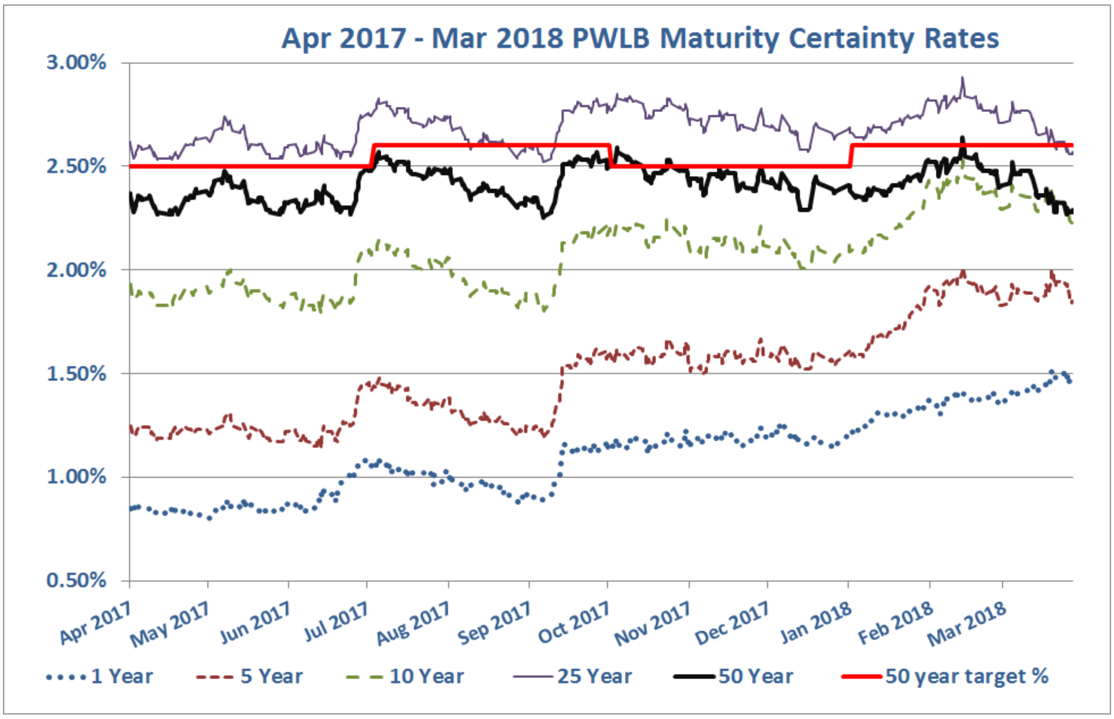
13. The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in the Base Rate shifted considerably during the second half of 2017/18 and resulted in investment rates from 3-12 months increasing sharply during the spring quarter.

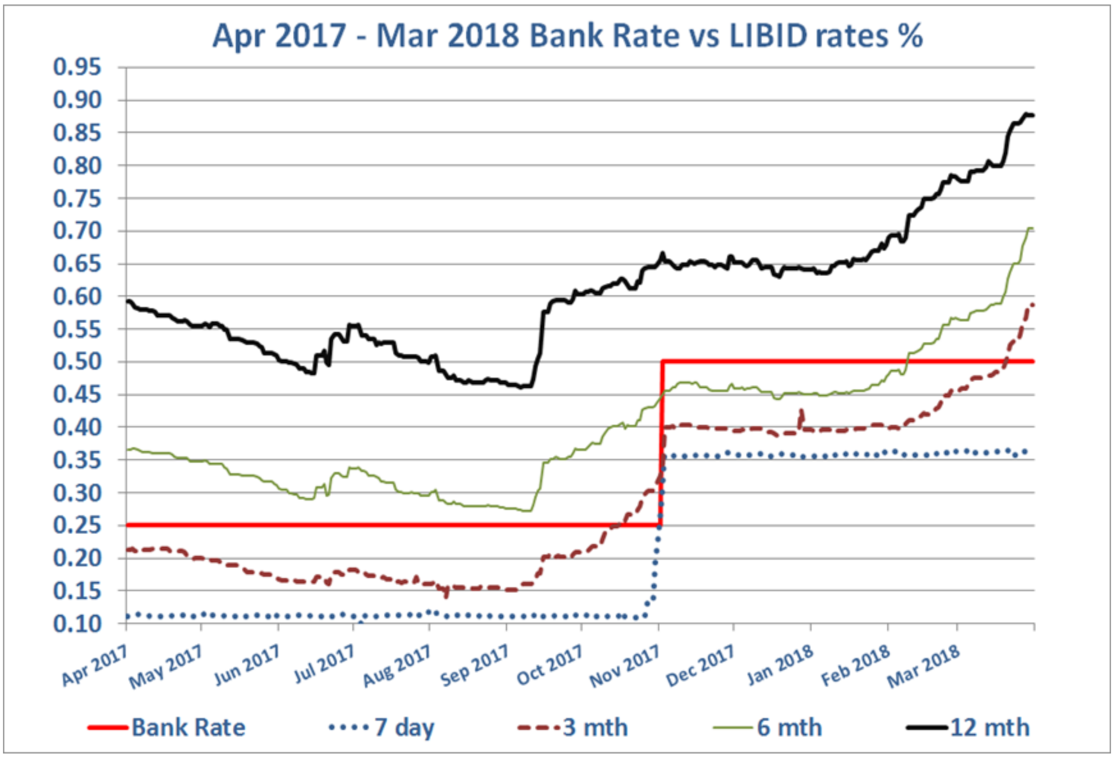
14. Consequently, PWLB borrowing rates increased, with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries.

15. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed (The US Central Bank), raising rates by 0.25% in June, December and March. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

Borrowing and Investment Rates

16. Both the interest rate on new borrowing charged by Public Works Loans Board (PWLB) and the interest receivable on our investments rose slightly during the year (see graphs below).





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

The Borrowing Requirement and Debt

17. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

18. The CFR goes up when we use borrowing to fund capital projects, but falls as we put money aside each year to repay that debt. The money we put aside to repay the debt each year is known as our 'minimum revenue provision' (MRP), and mimics depreciation charges that are used in the private sector.

19. The table below shows the outturn for 2016/17 and 2017/18 and the 2017/18 budget position including PFI liabilities.

	31st March 2017 Actual (£m)	2017/18 Budget (£m)	31st March 2018 Actual (£m)
General Fund CFR (non PFI)	£642m	£752m	£747m
General Fund - PFI Liabilities	£426m	£426m	£410m
Overall General Fund CFR	£1,068m	£1,178m	£1,157m
HRA CFR	£346m	£346m	£346m
Total CFR	£1,414m	£1,524m	£1,503m

20. After adjusting for PFI liabilities of £410m, the overall underlying debt of the Authority was £1,157m (up 8% on 2016/17's figures).

21. Planned capital investment for 2017/18 increased to £246.5m from the £238.3m set out in the TMS. Some of this represents slippage from 2016/17 and is therefore a timing issue rather than an increase to the overall capital programme.

22. Compared to 2016/17, gross external debt, excluding PFI liabilities, has increased by a net £53.2m to £800m after accounting for maturing loans.

23. £346m of our overall net debt related to the Housing Revenue Account (HRA) unchanged on last year and also slightly below expectations set out in the 2017/18 TMS. HRA debt relates to legacy housing investment, such as the Decent Homes programme.

Borrowing Outturn for 2017/18

24. During the year, SCC borrowed £75m to support the Council's capital investment programme. The table below shows the breakdown of capital investment being funded through prudential borrowing in 2017/18:

	£'m
Sheffield Retail Quarter	49.9
Streets Ahead	42.7
Leisure Improvements	13.4
Waste Management	13.5
Other Programmes	1.0
	120.5

25. The difference between the £120.5m above and the £75m we actually borrowed is the amount we funded using existing cash balances. This reduces the loan interest costs we pay, but means our under borrowed position has gone up.

26. Details of the borrowing taken in 2017/18 are shown in the table below:

Start Date	Maturity Date	Counterparty	Rate %	Principal O/S £'000s
06/02/2018	06/02/2026	PWLB	2.25%	7,000
06/02/2018	06/02/2059	PWLB	2.59%	13,000
06/02/2018	06/02/2063	PWLB	2.55%	10,000
23/03/2018	23/03/2064	PWLB	2.35%	7,500
23/03/2018	23/03/2065	PWLB	2.34%	7,500
23/03/2018	23/03/2068	PWLB	2.34%	15,000
23/03/2018	09/05/2018	London Borough of Newham	0.45%	15,000
		Total	**2.03%**	**£75,000**

27. The overall borrowing rate on these loans of 2.03% (2.42% excluding the short term loan from Newham) was below the budgeted level, and has therefore resulted in revenue savings.

28. Borrowing is currently attractive to take advantage of historically low borrowing rates, and to ensure our under borrowed level remains at sustainable levels in line with the TMS. However borrowing may incur a cost of carry (as described earlier). Consequently any additional borrowing will be taken cautiously, whilst keeping a close watch on forecasts of longer-term rates. Once these rates are forecast to increase significantly in the near future, we will take out additional long term debt in advance of these increases, to lock in the current low interest rates.

29. The decision to defer borrowing until Q4 of 2017/18 was taken in consultation with the Head of Strategic Finance, resulting in the capital financing budget being underspent for the year. This underspend was used to help support the Corporate budget. The average rate of interest paid on the Council's external debt has decreased to 4.12% in 2017/18 compared to 4.31% in 2016/17.

30. As at 31 March 2018, the loans portfolio, excluding PFI liabilities, totalled £800m indicating that the Council is under borrowed by £293m – up £52m on 2016/17 (£241m).

Debt Rescheduling

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

Investment Outturn for 2017/18

Ethical Investment Policy

32. The Council's Investment Policy is set out in the annual Investment Strategy approved by Full Council in March each year. The Policy outlines the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data, such as rating outlooks, credit default swaps, etc. In addition, the Council commits to not holding any direct investments in fossil fuels or, to the best of their knowledge, companies involved in tax evasion or grave misconduct.

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

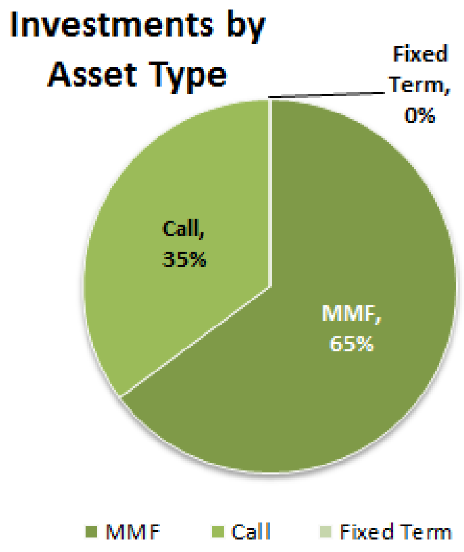
Investments held by the Council

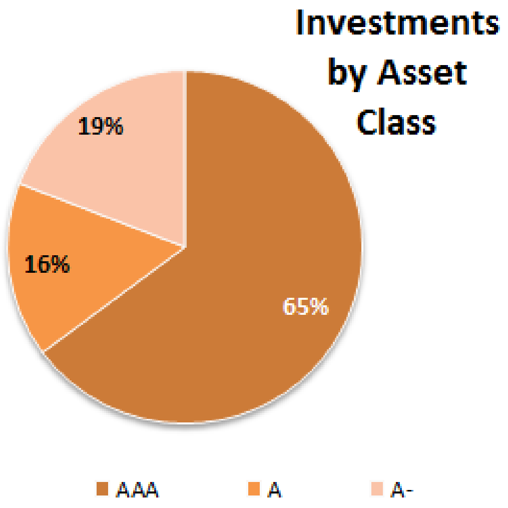
34. The Council maintained an average balance of £106.5m of internally managed funds compared to the Council only having funds for day to day cash flow purposes. As at 31st March 2018, investments were £90m; up £5m on the previous year (2016/17).

35. The internally managed funds earned an average rate of return of 0.48% against a budgeted return of 0.25% (i.e. in line with UK Base Rate at the time when the strategy was set). .

36. The Council would not normally plan to have such high cash balances, but balances are increased by the size and uncertainties in timing of the capital programme.

37. The pie charts below shows SCC's split of investments over a range of investment options, including AAA rated Money Market Funds (MMF's) and Fixed Term or Call accounts deposits with banks:





38. MMF's are an attractive counterparty to mitigate counterparty risk because they only invest in the most secure assets whilst they allow liquidity on a day to day basis and in line with the council's investment priorities (security, liquidity and then return).

Other Issues

MRP Policy change

39. As part of the 2017/18 Mid-Year Review, the Council took the opportunity to review the Council's MRP Policy to reflect better the use of assets over their useful economic life, and make the allocation of MRP charges fairer and more equitable between current and future taxpayers. The proposals were approved by the s151 Officer on the 9th January 2018 and subsequently approved by Cabinet on the 14th February 2018; after being reviewed by the Overview and Scrutiny Management Committee on the 23rd January 2018. The updated wording was reflected in the MRP policy statement set out in the 2018/19 TMS.

Revised CIPFA Codes

40. In December 2017, CIPFA issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with Local Authority non-treasury investments, e.g. investing in commercial property for potentially higher returns.

41. A key recommendation was that Local Authorities should produce a new report to Members to give a high level summary of the overall capital strategy and to enable Members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers

will report to Members during 2018/19 when the implications of these new codes have been assessed.

Markets in Financial Instruments Directive II (MiFID II)

42. The EU set the date of 3rd January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with Local Authorities from that date. This Directive has had limited effect on SCC apart from ensuring that our status as a professional investor is retained, and thus we retain access to a wider range of financial instruments, such as MMF's.

Annex 1

43. The overall Treasury position as at 31 March 2018 (excluding debt from PFI and finance leases) split across the General Fund and the Housing Revenue Account was as follows:

Authority	**31 March 2017 Principal**	**Rate/ Return**		**31 March 2018 Principal**	**Rate/ Return**
Total debt	*£747m*	*4.3%*		*£800m*	*4.1%*
CFR	*£988m*			*£1,093m*	
Over / (under) borrowing	*(£241m)*			*(£293m)*	
Total investments	*£85m*	*0.36%*		*£90m*	*0.48%*
Net debt	£662m			£710m	

General Fund	**31 March 2017 Principal**	**Rate/ Return**		**31 March 2018 Principal**	**Rate/ Return**
Total debt	*£456m*	*4.2%*		*£510m*	*4.0%*
CFR	*£642m*			*£747m*	
Over / (under) borrowing	*(£186m)*			*(£237m)*	
Total investments	*£85m*	*0.36%*		*£90m*	*0.48%*
Net debt	£371m			£420m	

HRA	**31 March 2017 Principal**	**Rate/ Return**		**31 March 2018 Principal**	**Rate/ Return**
Total debt	*£291m*	*4.6%*		*£290m*	*4.4%*
CFR	*£346m*			*£346m*	
Over / (under) borrowing	*(£55m)*			*(£56m)*	
Total investments	*£0m*	*n/a*		*£0m*	*n/a*
Net debt	£291m			£290m	

Annex 2: Prudential and Treasury Indicators

44. During 2017/18, the Council complied with its legislative and regulatory requirements including the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2016/17 Actual £000	2017/18 Original £000	2017/18 Actual £000
Capital expenditure:			
General Fund	141,822	153,442	183,523
HRA	73,530	84,851	63,001
Total	215,352	238,293	246,524
Capital Financing Requirement:			
General Fund	1,068,096	1,177,690	1,156,760
HRA	345,968	345,941	345,941
Total	1,414,064	1,523,631	1,502,701
Gross debt	1,172,870	1,394,536	1,209,555
Net External debt (gross debt less investments)	1,088,204	1,310,156	1,119,452
Investments			
Longer than 1 year	Nil	Nil	Nil
Under 1 year	84,666	84,380	90,103
Total	84,666	84.380	90,103

45. The Council's net external debt has increased by around £31.2m during the year, whilst our overall need for borrowing, which is represented by the CFR, has increased by £88.6m.

46. The CFR increases when we use borrowing to fund capital projects, whilst external debt goes up when we take on new loans or other credit arrangements such as PFI liabilities.

47. Net debt has increased as a result of a decision taken by the Council to ensure the level of under borrowing (where the level of borrowing is lower than the underlying need to borrow as set out in the CFR) is maintained at sustainable levels.

48. In order to lock into historically low borrowing rates, the Council has taken £75m of new borrowing (excluding PFI arrangements).

49. However, following the above strategy combined with an under spend on the capital programme meant that the Council continued to hold large sums of cash on deposit throughout the year. These deposits were placed with an array of AAA rated, instant access money market funds and fixed-term and call account deposits with banks. This investment policy meant that we sought to minimise security risks of our deposits, but deposit returns were

relatively low at 0.48% (albeit above the average UK Bank Base Rate of 0.35% during 2017/18).

Gross borrowing and the CFR

50. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table above shows that we have met this requirement.

The Authorised Limit

51. The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2017/18 the Council has maintained gross borrowing within its authorised limit.

The Operational Boundary

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

Actual Financing Costs as a Proportion of Net Revenue Stream

53. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2017/18
Authorised limit	£1,690m
Maximum gross borrowing position	£1,218m
Operational boundary	£1,600m
Average gross borrowing position	£1,179m

Ratio of financing costs to net revenue stream	31 March 2017 Actual	2017/18 Original limits	31 March 2018 Actual
General Fund	18.7%	20%	17.6%
HRA	9.5%	10%	9.5%

54. The indicator above is an unsophisticated interpretation of SCC's capital financing position. It is important to recognise that the Council aims to borrow to fund capital programme activity where that activity will in turn generate savings through more efficient working or income generation other than borrowing for major schemes, e.g. new schools. As such, though the amount of money we spend on things like interest costs may rise from one year to the next, as these costs support borrowing that will enable larger savings to be made.

55. A good example of this is where borrowing is used to support the Streets Ahead project. Borrowing for this project incurs debt costs, but allows us to move away from expensive and inefficient responsive repairs to a cheaper more effective planned maintenance programme.

	31st March 2017 Principal	Rate/ Return	Average Life (Yrs)	31st March 2018 Principal	Rate/ Return	Average Life (Yrs)
Fixed rate funding:						
PWLB	£374m	4.34%	21	£432m	4.05%	21
Market	£188m	4.24%	47	£188m	4.24%	46
Local Authorities	£55m	2.23%	3	£50m	1.48%	2
Variable rate funding:						
PWLB	£0m	0%	-	£0m	0%	-
Market	£130m	5.20%	46	£130m	5.20%	45
Credit Liabilities:						
PFI Liabilities	£426m	9.51%	21	£410m	9.94%	20
Total debt	£1,173m	6.1%	30	£1,210m	6.14%	26
CFR	£1,414m			£1,503m		
Over/ (under) borrowing	(£241m)			(£293m)		
Total investments	£85m	0.36%	<1	£90m	0.48%	<1
Net debt	£1,088m			£1,120m		

The maturity structure of the debt portfolio was as follows:

	31st March 2017 Actual	2017/18 Original (Max) Limits	31st March 2018 Actual
Under 12 months *	20%	20%	19%
12 months & within 24 months	1%	20%	2%
24 months & within 5 years	5%	20%	3%
5 years and within 10 years	7%	40%	9%
10 years and above	67%	100%	67%

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

The maturity structure of the investment portfolio was as follows:

Investments	2016/7 Actual £000	2017/18 Original Estimate £000	2017/18 Actual £000
Longer than 1 year	0	0	0
Under 1 year	84,666	84,380	90,103
Total	84,666	84,380	90,103

The exposure to fixed and variable rates was as follows:

	31st March 2017 Actual	2017/18 Original Estimates	31st March 2018 Actual
Fixed rate debt (inc PFI)	£1,043m	£1,264m	£1,079m
Fixed rate investments	-£8m	-	-£35m
Net fixed rate exposure	£1,035m	£1,264m	£1,044m
Variable rate debt	£130m	£130m	£130m
Variable rate investments	-£77m	-£84m	-£55m
Net variable rate exposure	£53m	£46m	£75m

REQUEST FOR PROJECT FUNDING
CUSTOMER RELATIONSHIP MANAGEMENT

Purpose of Report

1. The purpose of this report is to seek approval for a total investment of £745,848 to support the upgrade and purchase of a new Customer Relationship Management (CRM) system as follows:

   a) £380,672 from the HRA fund (payable in the first two years of the contract) and

   b) £365,176 from the SCC General Fund over the 5 year term.

2. As Customer Services does not have the budget to fund this investment we are requesting that SCC funding is provided from reserves.

Recommendations

3. Cabinet are recommended to:

   a) Provide total investment of £745,848 over a 5 year term for the upgrade and purchase of a new CRM system. It is recommended that the initial investment is funded from reserves.

   b) Delegate authority to Director of Finance and Commercial Services in consultation with the Director of Legal and Governance to:

      i. Terminate any existing CRM contracts with the existing Council ICT supplier.

      ii. Purchase the new CRM system via the Council's approved purchasing framework and thereafter enter into a contract for a new CRM by 30 June 2018 for 5 year term.

      iii. Take all other necessary steps not covered by existing delegations to achieve the outcomes outlined in this report.

Proposal

Business Need

4. Sheffield City Council's Corporate Customer Relationship Management (CRM) System helps us deliver and manage effective customer service across the whole council, via phone, face to face and online channels. We currently use two versions of the system in order to meet the needs of the Housing Service (v6) and wider customer service needs across the Council (v8). In addition to this Customer Services use a third CRM product to manage feedback and complaints from customers – iCasework.
5. Our current platforms do not enable us to exploit advances in CRM technology seen across the market place and which enable a significantly improved customer experience, a single view of the customer, and operational improvements through

integrations with other platforms and forms that would allow us to build the improvement of our self-service options.

Why we need the Project

6. The current CRM delivery model is technically unsupported, outdated and inefficient and with duplication across support costs. As such it exposes the Council to the following risks:

   a) If we had no CRM we would be operating as in a Business Continuity situation at all times.

   b) If we had no or insufficient MI/BI we would not be able to:

      i. Develop the Service further
      ii. Answer complaints correctly
      iii. Assure quality and accuracy
      iv. Analyse customer trends
      v. Develop the Housing Service
      vi. Deliver efficiencies
      vii. Work towards increasing Average Handling Time. When Housing Lagan was introduced a 33% efficiency was made. Without Lagan this efficiency could be reversed resulting in an increase in staff costs.

7. The proposed upgrade option is the best tool to enable us to seamlessly integrate with our new web platform and will provide the basis for fundamental re-design of our services around customer need in a way that meets 21st century expectations of customer service.
8. With customer and process data available via a single interface, timely, informed decisions can be made enabling us to operate with increasing agility. We can then exploit customer insights, differentiate and improve service offers and develop demand management strategies with data-driven outcomes rather than relying on “gut-feel” decisions.

How does this decision contribute?

9. Over the coming months, the Council will set out an ambitious programme of customer focused service transformation in a refocused Customer Experience Programme. The CRM tool will be a fundamental driver in maximising both the ambitions of the Customer Experience Programme and the broader strategic outcomes of the Council set out in the SCC2020 Change Programme. The Links and Dependencies to other strategic aims are summarised below.

Links and Dependencies	Description
SCC2020	The upgrade is recognised as a product that will enable the organisation to more effectively deliver the SCC2020 strategy.
Customer Experience Programme	Operational re-design activity will be underpinned by the design principles embedded in the Customer Experience Programme
Tech2020	The Tech2020 strategy seeks a future state where we have a multi-source approach to procuring and commissioning technology. A direct award for the CRM upgrade supports this direction of travel.
Housing Plus	Housing Plus will require some of the additional capability (mobile working) to fully realise benefits.

10. The desired outcomes of the Customer Experience Programme are that:

   a) We get it right first time for customers, resolving their queries efficiently, responsively, and as quickly as possible – avoiding expensive and frustrating failure demand, leading to reduced operating costs and more satisfied customers

   b) Customers are able to access digitally-enabled, easy-to-use services that are designed around their needs, at a time and using a channel that suits them, where staff and customers can track and complete transactions consistently.

   c) We manage demand more effectively through better sign-posting, information, advice and guidance so that people can help themselves, identifying needs early to prevent situations escalating

   d) Customers are satisfied with their experience of using Council services.

The Preferred Solution

11. The preferred solution is to consolidate the existing CRM platform and upgrade the technology to a solution that meets the needs of the business now and in the future.

The Preferred Option

12. The preferred option is to procure the preferred solution from the existing CRM provider so that we can build on the existing relationship and build a mutually beneficial partnership approach that benefits the wider Sheffield community. The preferred option is commercially underpinned by directly awarding the contract to the provider. In this way we are strategically aligned to the Council's Tech2020 strategy. This option also appears to provide best value in terms of product alignment to

requirements, set up, on-going cost and other indirect costs such as product familiarisation, training and skills transfer.

Consultation

13. Consultation has taken place with all stakeholders, the most significant of these being our Housing Service colleagues, who not only support the project but have agreed to fund 46% of the net project costs.
14. Consultation during development of the Business Case has included colleagues in HR, Legal, Insurance & Risk, Equalities, Trade Unions, Commercial and Democratic Services.
15. The business case was endorsed by the Customer Experience Programme Board on 15th May 2018 to go through to RLT and then for Cabinet Approval
16. Lead Cabinet Members with responsibility for Customer Services and Housing Services have been kept appraised of the project developments and further meetings are planned throughout May/June 2018.

Risk Analysis and Implications of this Decision

Equality of Opportunity Implications

17. An Equalities Impact Assessment has been completed and can be found here – EIA 228 at https://apps.sheffield.gov.uk/equality-impact-assessment/Lists/EIAs/My%20EIAs.aspx

Financial and Commercial Implications

18. The total project cost is forecast to be**£2,341,598** over a 5 year period.
19. However, after realising savings from the current core ICT contract and rationalisation of the iCasework complaints handling system (once these existing contracts are terminated) the net project cost should be reduced to **£745,848** over the term of the contract. On-going costs at the end of the term will be approximately £28k per annum higher than they are presently.
20. 2018/19 implementation costs include: one-off capital costs, project costs, decommissioning costs, new Software as a Service (SaaS) annual support & maintenance costs and new annual SaaS subscription costs – requiring an initial investment funding totalling £633,509.
21. A £190,336 annual investment contribution from the Council’s HRA fund payable in the first two years of the contract only, will reduce the upfront (2018/19) investment cost from the SCC General fund from £633,509 to £443,173. However, the overall SCC General Fund investment required over the contract period is £365,176.
22. The cost profile for the term is summarised below.

	18/19 (Jul-Mar)	19/20	20/21	21/22	22/23	23/24 (Apr-Jun)	**Total**
General Fund Costs/(Savings)	443,173	(166,319)	24,017	24,017	28,555	11,733	**365,176**
HRA Funding	190,336	190,336	0	0	0	0	**380,672**
Total Net Project Cost	**633,509**	**24,017**	**24,017**	**24,017**	**28,555**	**11,733**	**745,848**

23. A Procurement Strategy has been developed and will be signed off by Filip Leonard (Head of Procurement & Supply Chain). It will provide details of the framework and criteria which will be satisfied to ensure compliance with SCC policies and procedures.
24. As regards the source of funding, it is recommended that the investment is provided from reserves.

Legal Implications

25. The Localism Act 2011 provides the Council with a ‘general power of competence’ which enables them to do anything that an individual can do as long as the proposed action is not specifically prohibited. The power to enter into contract to provide such services and facilities is contained in section 111 of the Local Government Act 1972, which permits a local authority to do anything ancillary to incidental to or conducive to the discharge of any of its functions.
26. A contract for the purchase of a new Customer Relationship Management system as detailed within this report will be put in place, such contractual agreement should be based on the Councils standard contract terms and conditions.
27. The Housing Revenue Account (HRA) is the financial account of the Council as a landlord of Council Housing. Legally any expenditure from this account can only take place involving council housing and includes associated activities in connection with the provision of council housing, in this case customer relationship services. Decision makers need to be satisfied that this is appropriate.
28. Any procurement and award of any contract for services must be made in line with the EU Regulations and the Leaders Scheme of Delegation.

Other Implications

29. Outstanding risks for this project to date are attached as Annex A to this Appendix.

Alternative options considered

30. Other options as detailed below, were considered, but discounted as they left the Council open to reputational and information security risks. These alternative options included:

    a) Do nothing.

    b) Extend the current contract under current core ICT contract.

    c) Competitive tender process for an alternative supplier.

Project Scope

31. The suggested scope of the project is as follows:

a) Consolidate the two existing versions into one, upgrading them from the current version of Lagan/Verint (v6 and v8) to the new v15.4. (or latest version at the time of purchase).

b) Revise and modernise the current processes and scripts to improve the customer journey and single view of the customer.

c) Review and modernise CRM capabilities to ensure alignment with Tech2020, SCC's Customer Experience Strategy and the new General Data Protection Regulations (GDPR) 2018.

d) Replace the need for iCasework (Complaints software) by using new processes within the upgraded version of CRM.

Reasons for Recommendations

32. The benefits of the preferred option described above will be:

a) A single customer contact record for all online and assisted channels

b) Increased mobility and flexibility within the contact centre model enabling improved data quality and ultimately improved service levels

c) Improved customer insight to aid planning of future services

d) Resolution of business problems around current form functionality

e) Improved consistency for customers via all channels

f) Ability to utilise online services for all front facing activity

g) Resolution of any current operational/technical issues

h) The ability to realise other Council projects; e.g. Housing Plus and HR insourcing

i) Enhanced Mobile capability

j) Reduction in staff frustration at using outdated, inefficient systems leading to a concomitant increase in job satisfaction.

Risk Analysis

33. Outstanding risks for the project to date are summarised below:

	Risk	Description	Mitigation	Residual RAG Rating
1.	Risk of benefits degradation through core ICT contract	There is a risk that the cashable savings may not be realised in full due to the complexities of the core ICT contract	Confirmation of the realisable savings that will drop out of the contract as a result of the upgrade with Commercial Services and with BCIS has now been received. However, this does not include current supplier business change or management costs.10% contingency added to assumed cost as detailed above.	Amber
2.	Project Delivery could go over budget	Lack of certainty over costs to be incurred by current corporate ICT provider which could impact the benefits profiles negatively.	We have based costs on QTMS provided by the current corporate ICT provider. However these are pending refreshed costs and will be confirmed once the programme is up and running – however, this will be transitioned from the existing ICT supplier. A realistic 10% contingency has also been included to help mitigate risk.	Amber
3.	Initial dip in performance	Customer Service KPI's could see an initial drop as a result of becoming accustomed to a new system and new processes	Roll out of an upgraded system will take a two phased approach. An initial lift and shift of existing processes into the new system, which will only require familiarisation training. A second launch	Amber

			in January 2019 will see the launch of the new processes, which will be supported by targeted training and staff will be used to test systems to increase familiarity. We will seek some KPI leniency from the relevant Executive Director during this period. Front end telephony messaging, call back opportunities will be used to update customers and mitigate any operational/reputational risks	
4.	Technical Risks	Integration issues which may affect current integrations with OHMs, PFI. May also affect website activity and possible firewall issues	Verint will work closely with SCC to manage the integrations with OHMS and Confirm (PFI) which will be undertaken as part of the project. Verint has experience of successfully delivering these integrations as part of upgrade projects with other customers. Verint will provide technical information on firewall and network access requirements to SCC as part of project planning.	Amber

CAPITAL OUTTURN REPORT AS AT 31st MARCH 2018

Expenditure and Delivery

1. The approved capital programme budget for 2017/18 at 31 March 2018 (Month 12) was **£269.8m**.
2. This is a reduction of £23.9m from the last reported position at the end of Month 9. The table below summarises the movements.

	2017/18	2018/19	Future	Total
Month 9 Approved Budget	**293.7**	**196.4**	**301.9**	**792.0**
Additions	0.1	5.6	0.6	6.3
Variations	12.1	10.5	73.9	96.5
Slippage and Acceleration	-36.0	8.3	27.8	0.0
Month 12 Approved Budget	**269.8**	**220.8**	**404.2**	**894.8**

3. The key in-year budget changes between Months 9 and 12 relate to:
   - Slippage on the SRQ scheme (£15m), new Academy Schools (£5m), the Whole Family Case Management System (£1.5m), and the Corporate Essential Replacement Programme (£1m).
   - Re-profiling of the Housing Capital Programme (£11m)
   - Inclusion of an addition £10m of costs relating to the Waste Management Project.
4. The overall outturn of expenditure against this approved budget was **£246.5m**. Table 2 (below) summarises the outturn expenditure by service and categorises the variance against budget by various categories.
5. Year-end slippage (as identified in the table below) totalled £27.2m or 10% of the approved Month 12 budget which compares to 11% at 2016/17 outturn.
6. The vast majority of over and underspends identified relate to projects funded by specific grants or the Housing Revenue Account and so the net £2.2m underspend does not release any additional discretionary capital funds. However, overall savings on Leisure Centre and Football Pitches projects has reduced an expected call on Prudential Borrowing by approx. £400k.

Portfolio	Approved Expenditure Budget	Expenditure 31/03/18 (Qtier)	Variance	Slippage	Accelerated Spend	Overspend	UnderSpend	Internal Adjusment	Percentage Year End Slippage
BSR	13,285,000	13,285,000	-	-	-	-	-	-	0%
CITY GROWTH	62,926,100	59,157,091	3,769,010	5,398,737	(1,470,930)	(205,339)	46,540	-	6%
COMMUNITIES	791,609	905,671	(114,062)	-	(113,634)	(429)	-	-	-14%
CORPORATE	39,831,451	39,502,636	328,815	328,815	-	-	-	-	1%
CULTURE	20,990,654	20,010,883	979,770	151,308	(2,036)	(148,038)	977,536	1,000	1%
CYP	35,326,227	31,727,984	3,598,243	6,186,092	(2,321,493)	(504,137)	237,781	-	11%
HIGHWAYS	14,278,870	12,421,213	1,857,657	1,345,332	(7,268)	(359,497)	879,089	-	9%
HOUSING	71,306,561	63,001,365	8,305,196	9,073,300	(1,533,970)	(178,387)	1,455,153	(510,900)	11%
PARKS	2,185,627	841,932	1,343,694	1,290,112	(427)	(1,497)	55,508	(0)	59%
RESOURCES	447,114	66,026	381,088	385,291	-	(4,203)	-	-	86%
T&FM	8,411,177	5,589,875	2,821,302	3,052,758	(166,820)	(23,669)	14,510	(55,477)	34%
GRAND TOTAL	**269,780,390**	**246,509,679**	**23,270,712**	**27,211,744**	**(5,616,577)**	**(1,425,195)**	**3,666,117**	**(565,377)**	8%

7. The high percentage of year end slippage against Parks relates mostly to a general allocation of Section 106 resources for projects not yet commenced and so doesn't reflect a delay in projects in progress

8. The high percentage of year end slippage against Resources relates solely to the Moorfoot Lift Replacement project due to extended lead times from overseas suppliers

9. The high percentage of year end slippage against Transport and Facilities Management relates in most part due to block allocations for Health & Safety and Maintenance works that have not been fully utilised but are required to deliver necessary compliance works to the corporate estate.

10. Overall, analysis of slippage indicates that 40% of the £27m slippage at year end is not related to delay in projects in delivery but slippage in allocations for programmes not yet commenced or for land purchases which have been delayed.

11. The 10 projects with highest spend above approved budget with categorisation of the variance and explanatory comments are summarised below:

Scheme Title	Portfolio/Service	Approved Expenditure Budget	Expenditure 31/03/18 (Qtier)	Variance	Accelerated Spend	Overspend	Internal Adjusment	Comments
MERCIA SCHOOL	CYP	12,770,990	14,683,372	(1,912,382)	(1,912,382)	-	-	Acceleration due to additional surveys/monitoring in relation to ground conditions being undertaken.
KITCHEN/BATHRM PLANNED REPLMT	HOUSING	11,529,325	13,058,895	(1,529,570)	(1,529,570)	-	-	The contractor has brought forward future years work and presented a proposal to complete all work by the end of May 2018. The final number of outputs in 2017/18 is 1440, an acceleration of 425 outputs, including 165 vacant properties, on the original planned number of 1015.
SRQ OFFICES	CITY GROWTH	39,008,293	40,479,222	(1,470,930)	(1,470,930)	-	-	Project ahead of schedule
PROGRAMME MANAGEMENT COSTS RTB	HOUSING	-	510,900	(510,900)	-	-	(510,900)	This relates to £1.3k transaction costs relating to Right To Buy Properties - Costs are directly funded from Right To Buy sales at each year end.
SF DEVOLVED CAPITAL	CYP	946,230	1,339,904	(393,674)	(393,674)	-	-	Due to also paying out prior years' accumulated balances to schools before introduction of the new '100% passporting out to schools' policy starts in 2018-19.
HALLAM UNIVERSITY CYCLE ROUTE	HIGHWAYS	512,605	709,364	(196,759)	-	(196,759)	-	Overspend is due to moving costs at YE to SRQ for cycle route element. All expenditure is fully funded from STEP
FRA 16-17 FIRS HILL PMY SCH	CYP	197,400	370,520	(173,120)	-	(173,120)	-	Original Budgets were based on square meterage estimates prior to full design. Outturn costs and future forecasts reflect actual contractor scheme design costs including an uplift for out of hours working. A further £10k costs are forecast for 18/19. Works funded from School Condition Allocation
FRA 16-17 LYDGATE JUNIOR	CYP	-	169,652	(169,652)	-	(169,652)	-	The budget for this scheme forms part of the FRA Works Measured Term Contract Business Unit but was not formally separated out. Outturn costs and future forecasts reflect actual contractor scheme design costs including an uplift for out of hours working. A further £110k costs are forecast for 18/19. Works funded from School Condition Allocation
IRR JUNCTION SCHEMES	HIGHWAYS	127,120	272,307	(145,187)	-	(145,187)	-	Increased costs on scheme design funded from LTP
BROOKHILL AREA IMPROVEMENTS	CITY GROWTH	440,641	577,567	(136,927)	-	(136,927)	-	Increased costs to be met by University Of Sheffield
TOTAL		**65,532,603**	**72,171,703**	**(6,639,100)**	**(5,306,556)**	**(821,644)**	**(510,900)**	

12. The 10 projects with the greatest variance of expenditure below approved budget with categorisation of the variance and explanatory comments are summarised below:

Scheme Title	Portfolio/Service	Approved Expenditure Budget	Expenditure 31/03/18 (Qtier)	Variance	Slippage	UnderSpend	Internal Adjusment	Comments
ASTREA ACADEMY	CYP	9,604,229	6,042,715	3,561,514	3,561,514	-	-	Slippage due to over optimistic cash-flow submitted by the contractor. This has been compounded by the delays caused by service providers. These issues have been rectified. An up to date cash-flow from the contractor has now been received.
SHEFFIELD RETAIL QUARTER 2	CITY GROWTH	7,046,103	3,617,895	3,428,208	3,428,208	-	-	Budget requires review to reflect profile of acquisitions
PITCHED ROOFING & ROOFLINE	HOUSING	20,987,914	18,257,083	2,730,831	2,730,831	-	-	Due to the continued under performance of one of the contractors, the project has underspent. The 2017/18 budget had previously already been reduced by £3.5m due to a combination of poor performance and a higher than required budget. Rather than remove contractor a lower rate of outputs was agreed until 2017/18 commitments have been met. The 2018/19 commitments will then be re-tendered. This has resulted in around 635 fewer outputs in 2017/18. Hence slippage required to allow delivery of these in 18/19
WINDOWS& DOORS PLACEMENT(CHS)	HOUSING	4,871,095	3,387,478	1,483,616	1,483,616	-	-	Disputes over forcast final account with key contractor have resulted in delays to the programme. As a result slippage is required to allow completion of the programme in 2018/19
DISABLED GRANTS	HOUSING/ PEOPLE	4,031,226	2,670,081	1,361,145	1,361,145	-	-	The total expenditure of £2.670m is £0.078m more than the previous year. However, slippage is due to the large increase in grant, which inflated the available budget. The Disabled Facilities Grant funding can be carried forward. Work is ongoing to ensure grant useage is maximised going forward.
GREEN AND OPEN SPACES S106 STRATEGY	PARKS	940,898	-	940,898	940,898	-	-	Overall allocation for works not yet commenced but expected in future years
HEALTH & SAFETY COMPLIANCE	T&FM	845,612	-	845,612	840,547	-	5,065	Historic allocation for compliance works less funding of overspending schemes at Bereavement Services- Crookes and City Rd Crem. Access. Slippage requested for continuation of programme.
MECHANICAL REPLACE BRUNSWICK	CYP	826,550	130,789	695,760	695,760	-	-	Higher than anticipated full cost estimate of works has led to delay in programme as new solution is considered.
MECHANICAL REPLACE MTC TFM	T&FM	688,960	1,181	687,779	676,963	-	10,816	Overspend on individual schemes deducted from new Mechanical Replacement Programme. No overall increase in funding required.
FA PITCH (WESTFIELD)	CULTURE	5,818,285	5,157,531	660,754	73,831	586,923	-	Expected underspend due to sizeable risk/contingency pot that hasn't been needed. Majority of saving reduces Prudential Borrowing requirement.
TOTAL		**55,660,871**	**39,264,753**	**16,396,117**	**15,793,313**	**586,923**	**15,881**	

Historic Performance Comparison

13. Analysis has been undertaken of overall slippage levels (i.e year end slippage plus in year slippage) over the previous 6 years. The results of this are shown below:

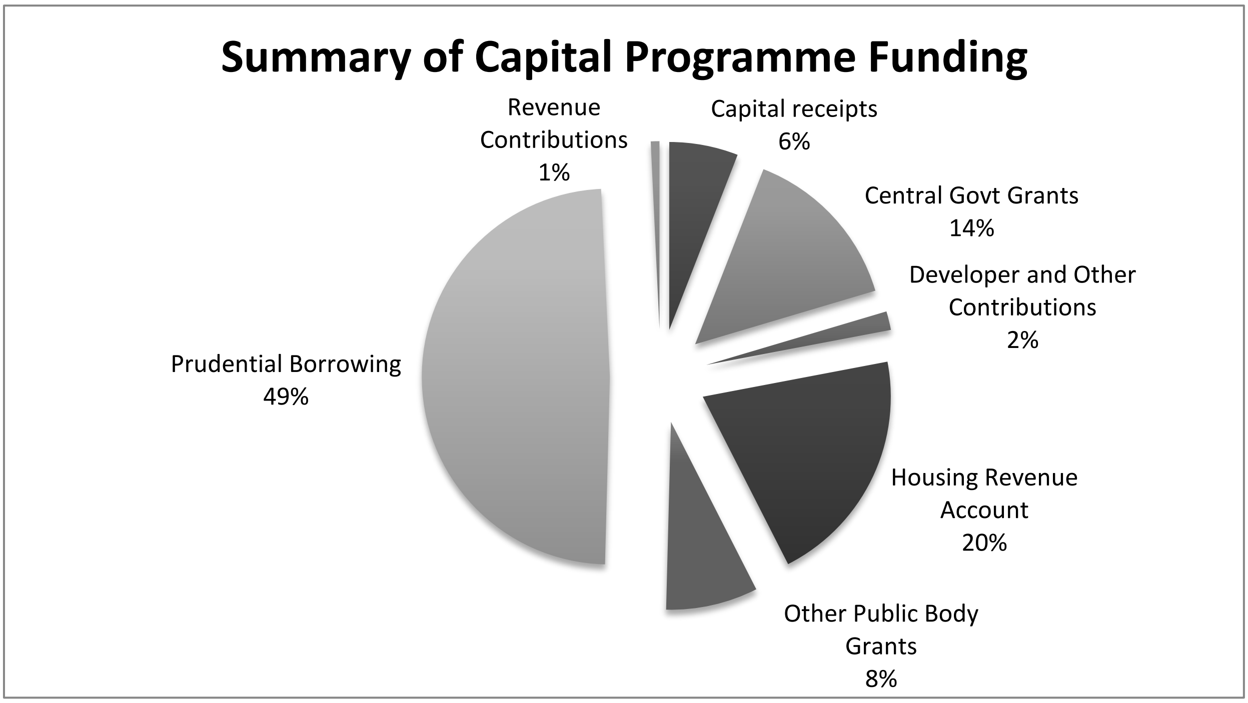
Financial year	Delivered	In Year Slippage	Year End Slippage	Total Slippage	Slippage as %age of budget
2012-2013	115.6	44.4	43.3	87.7	43%
2013-2014	116.5	44.6	9.6	54.2	32%
2014-2015	145.3	54.8	18.2	73.0	33%
2015-2016	227.4	37.5	36.9	74.4	25%
2016-2017	215.4	41.5	24.3	65.8	23%
2017-2018	246.5	51.4	21.5	72.9	23%

14. The overall trend is one of improvement since 2012-13 as the percentage of slippage against approved budget has fallen substantially. The trend of falling year end slippage in the past 3 years is also encouraging indicating that corrections to budgets are being captured earlier.

15. While an element of slippage in capital programmes is inevitable, work will continue to improve the accuracy of budget setting and forecasting to reduce this further. Benchmarking with other core cities will be undertaken to establish if Sheffield's level of slippage is comparable.

Funding and Resources

16. The graph below shows the breakdown of resources used to fund the £246.5m capital expenditure in 2017/18:



17. Almost half of capital expenditure has been funded via prudential borrowing (£120m). The major projects funded by this are development of the Sheffield Retail Quarter (where future returns are expected to offset financing costs) and the financing of capital elements of the Streets Ahead Contract which delivers overall revenue savings.

18. Expenditure funded by capital receipts (£12m) is split equally between the essential corporate estate maintenance works and council housing estate management.

19. The majority of the £35.6m funded by Central Govt. grants relates to grants from the Department for Education for the creation of new school places and maintenance of schools' infrastructure.

Key Issues

20. At last year end outturn the Lower Don Valley Flood Defence Project was identified as presenting a potential unfunded overspend position. During the year additional funds were secured from the Environment Agency and Community Infrastructure Levy, this project is now close to completion within a fully funded budget.

21. During the year approval was given to cash flow the schools expansion programme from corporate resources in advance of grant allocations being made from the Department of Education up to a maximum of £22m. Current projections indicate that this will be able to be managed at £2m below this level.

Summary

22. Whilst not improving on a percentage basis overall this year, programme slippage is on a downward trend. Work will continue to improve the accuracy of budget setting and forecasting to ensure a realistic capital programme is in place which will give greater certainty over cash flow and over the outcomes to be delivered for the city.