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

Purpose of the Report

1. This report describes the budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 9.

REVENUE BUDGET MONITORING

Summary

2. The Council's revenue budget is displaying a forecast overspend of £10.9m.
3. The Month 6 Report described a £14.2m position, so this represents a £3.3m improvement and as such is to be welcomed. It should be noted that the bulk of the improvement, as described below, is due to one-off improvements in Corporate budgets. Cost pressures within social care services continue to drive budget overspends, reflecting the nationwide issues within that particular sector.
4. The Council will build upon efforts to mitigate this forecast overspend, including further reviews of Corporate expenditure, accelerating some savings plans where possible and continuing to review non-essential spend. It is unlikely that this overspend will be addressed fully before year end, making an overspend position at year end the likely outcome.
5. The position split by Portfolio is summarised in the table below.

Portfolio	FY Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
PEOPLE	231,620	215,622	15,998	⇧
PLACE	189,553	190,612	(1,059)	⇩
PPC	2,460	2,131	329	⇔
RESOURCES	43,803	44,010	(208)	⇩
CORPORATE	(456,574)	(452,376)	(4,199)	⇩
GRAND TOTAL	**10,861**	**-**	**10,861**	⇩

6. In terms of the forecast outturn position of £10.9m overspend, the key reasons are:

- **People** are forecasting a £16.0m overspend. The key reasons for this position are:
    - An overspend of £9.4m within Care & Support. The key reasons for this are the effects of increased volume and cost of activity within home care provision of £5.1m, supported living cost increases of £2.6m, the impact of

unachievable savings of £2.6m, with some smaller movements both positive and adverse within the service.

- An overspend within Community Services of £82k due to the impact of a delayed MER scheme of £458k, partially offset by a vacancy saving for Community Support workers of £112k, reductions in spend in the 100 Apprenticeship Scheme of £111k and project slippage of £120k.
- An overspend of £6.6m against Children & Families budgets. This is mainly due to the impact of delayed savings totalling £4.1m, increased staffing and non-staffing costs within Fieldwork services of £1.5m and £600k respectively, and the full year impact of the 2017/18 overspend of £460k.
- An overspend with Commissioning, Inclusion and Learning Services of £307k. This is due to £531k unachieved savings within the tri-partite risk share agreement between the Council, CCG and Care Trust and a £125k underspend within Carer's Breaks due to contract variation.
- A reduction in spend of £324k within Business Strategy, mainly due to a forecast reduction in staffing costs and over-recovery of income within the service.
- There are a number of smaller movements within this position. **Appendix 1** provides a fuller picture on a service-by-service basis, including commentary as to the movement since Month 6.

- The **Place** Portfolio is forecasting a £1.1m underspend. The key variances include slippage in the delivery of planned budget savings on 'Place Change Programmes' and Housing General Fund (£3.5m), offset by both sustainable and one-off reductions in expenditure budgets which will not affect service delivery and staff savings from a voluntary early severance/retirement scheme (£4.5m), resulting in a net £1.0m forecast underspend
- The **Resources** Portfolio is forecasting an underspend of £208k. The key reasons for this are underspends of £400k relating to reduced former employee pension costs, £200k due to staffing vacancy and redeployment, avoiding external contractors and £100k additional external income within Legal Services. This is offset by £500k lower collection of rebates where the reduced cost of negotiated contracts has been passed to the spending department rather than retained centrally.

- **Policy, Performance & Communication** is forecasting an overspend of £329k mainly due to an overspend on the advertising contract of £457k following slippage in rolling out new sites. This is partly offset by savings identified with the Policy and Improvement team and the Elections Service.
- **Corporate** are reporting an underspend of £4.2m. This is due to income received as a result of investing cash balances that are earmarked for use later in the year to finance the capital programme and debt costs avoided by the delay of scheduled borrowing of a combined £3.2m, and £1.0m released from the corporate redundancy provision.

7. The overall position has improved by £3.3m since the Month 6 Report. The key reasons for this movement, by portfolio, are:

   - **People Portfolio** is forecasting a £528k worsened position since Month 6. The key reasons for this, at service level, are:
     - An increase in overspend within Care & Support of £1.0m.This is due to £1.6m savings declared unachievable, growth in client numbers and increased volume and cost of activity of £525k, an increase in bad debt provision of £220k, and costs associated with the 5Q initiative and Short Term Care of a combined £255k. This is offset by £1.4m grant and service user income above budget, and the capitalisation of £215k of equipment purchases previously funded through revenue.
     - An improved forecast within Community Services of £230k, mainly due reduction in spend against Apprenticeships and Disadvantaged Area Funding of £231k.
     - A slight deterioration within Children & Families of £2k.
     - An improvement of the forecast within Commission, Inclusion & Learning Services of £349k, mainly due to £154k of improvement of the Council's position within the Risk Share Agreement with partners in the Health sector and a contract variation relating to Carer's Breaks resulting in a saving of £125k. It should be noted that these improvements within the Risk Share Agreement reduce an eventual overspend, when read alongside the description within Paragraph 6 above.
     - A small deterioration within Business Strategy of £81k.
   - **Place Portfolio** has improved by £449k since Month 6. This is largely due to additional planning fees received within City Growth, reflecting changing trends. This may change further, if key developments do not progress within anticipated timescales.

- **Resources Portfolio** has improved by £331k since Month 6. This is mainly due to a contract cost reduction of £163k relating to printer costs, £56k of internal income through providing internal consultancy services and other smaller movements within the Portfolio.
- **Policy, Performance and Communications Portfolio** has improved by £88k following savings identified within the Policy and Improvement team and a £66k reduction in costs within the Elections Service.
- **Corporate Portfolio** has improved by £3.0m since Month 6, reflecting the delay in external borrowing of £2.0m and the release of corporate redundancy provision of £1.0m, referred to above.

8. Fuller details of all reductions in spend, overspends, and descriptions of the movement since Month 6, within can be found in **Appendix 1**.

Public Health

9. Services funded by Public Health grant are showing a £338k 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

10. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme of £5.3m. As at Month 9 the account is forecasting a £181k improvement from this budgeted position. Further details of the Housing Revenue Account can be found in **Appendix 3**.

Collection Fund

11. As at Month 9, the local share of the Collection Fund income stream is forecasting an overall in-year surplus of £4.9m, made up of a £2.0m surplus on Council Tax and a £2.9m surplus on Business Rates. This position is discussed in more detail within **Appendix 4.**

Corporate Risk Register

12. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. The most significant risks are summarised in **Appendix 5** along with any actions being undertaken to manage each of the risks.

Capital Summary

13. The approved capital programme budget for 2018/19 at 31 December 2018 was £240.0m. The overall outturn of expenditure against this approved budget is forecast to be £205.3m, representing a variance of £34.6m. Further monitoring of the Capital Programme is reported in **Appendix 6**.
14. We have now received confirmation of the capital funding for schools' building for 2020/21. This funding is £3.6m lower than we anticipated, at £6.4m pa instead of £10.0m. Our schools' expansion programme is currently fully committed, as we received insufficient allocations during the build phases of the two new Academies we have constructed in the north-east and south-west of the City (Astrea and Mercia), to cover fully their construction costs. We were intending to cover this cash flow deficit from the schools' capital allocation for the next three years with full repayment occurring by 2021/22.
15. The lower than anticipated allocation for 2020/21 means that in order to be able to make full repayment by 2021/22 the minimum allocation required for that year will be £8.9m. Any allocation below this amount will push the cash-flow repayment back further to 2022/23. Consequently this means that the schools' capital expansion programme is fully committed for 2018/29 to 2021/22, and there is no scope to fund any further school expansions (unless we receive further cash flow approvals) until the 2021/22 allocation is confirmed. However we anticipate that the recent expansion in school capacity will mean we have sufficient school spaces over this period. Officers will report back in more detail in later monitoring reports.

Treasury Mid-Year Review

16. In order to update Members on the delivery of the 2018/19 Treasury Management Strategy Statement, the Treasury Management Mid-Year Report is attached at **Appendix 7**.

Implications of this Report

Financial implications

17. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2018/19, and it does not make any further recommendations that have additional financial implications for the City Council.

Equal opportunities implications

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

Legal implications

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

Property implications

20. There are no other property implications arising from the recommendations in this report.

Recommendations

21. Cabinet are asked to:
    - (a) Note the updated information and management actions provided by this report and attached appendices on the 2018/19 Revenue Budget Outturn.
    - (b) In relation to the Capital Programme, note the forecast Outturn position described in **Appendix 6** and the impact of recent announcement regarding School Expansion Funding described above at Paragraphs 14-15.
    - (c) Note the Mid-Year Treasury review in **Appendix 7**.

Reasons for Recommendations

22. To record formally changes to the Revenue Budget and the Capital Programme.

Alternative options considered

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

Dave Phillips

Head of Strategic Finance

PORTFOLIO REVENUE BUDGET MONITORING AS AT 31ST DECEMBER 2018

People Portfolio

Summary

1. As at Month 9, the People Portfolio has a full year forecast outturn of an over spend of £16.0m on Cash Limit budgets and an over spend of £2.0m on DSG budgets. This is an increase of £528k on cash limit budgets and of £246k on DSG budgets since the Month 6 Report. The key reasons for the outturn position on the cash limit are:

Care & Support (overspend of £9.4m)

- Purchasing Learning Disabilities is forecasting an overspend of £4.3m. This is made up of £2.6m delays in anticipated savings partly mitigated by £750k anticipated new income, together with £2.5m of increased supported living costs due to market rates, pressures and tupe costs and further in year growth in direct payments and day care.
- Non-purchasing Learning Disabilities is forecasting an over spend of £224k. This is made up of an overall over spend across LD In-house Provider Services, mainly short breaks and supported living, and a delay in anticipated saving of £103k mitigated by an under spend in Adult Placement Shared Lives.
- Long Term Care (LTC) Purchasing are forecasting an overspend of £5.1m. This is 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 providers delivering close to commissioned hours. This causes an increase in costs where more staff and resources are needed to fulfil more overall contact time.
    - It is worth noting that client income has increased significantly however this is in direct correlation to the increase in provision. Should the numbers stabilise and start to fall so will the income received. There has also been a rise in Bad Debt Provision which needs to be pursued through active debt chasing.
    - There is also a £321k pressure for the mandatory leave which is currently being offset by vacancies within the whole service area.
- Commissioning are forecasting an overspend of £336k. This is mainly due to the British Red Cross Equipment risk share agreement with the CCG. There is to be additional investment in specialist staff to triage equipment allocation with the intention of ensuring the right equipment is issued to support the individual's

needs. It is expected that this approach will address some of the overspend issues.

- Access and Prevention are forecasting an underspend of £629k. This is mainly due to vacancies across the service of £311k, £174k additional income in First Contact Prevention from the Travel Grant and also the revision of the Housing Assistance Policy which has enabled the Council to capitalise some equipment for adaptations previously purchased through revenue funding of £215k.
- Safeguarding and Practice Development are forecasting an underspend of £41k. This is due to legal charges being lower than budget on Safeguarding and the secondment to a project of the team leader on Practice Development with backfill arrangements being at a lower grade.
- A Cabinet paper in Spring 2017 approved the use of some of the Improved Better Care Fund Year 2 funding allocated by Government to address some of the social care pressures. This paper described using the funding to cover some of the pressures within Home Care and to date £5.5m has been allocated to Care & Support activity, and this funding is included in the above descriptions. Without this funding, the overspend would therefore be greater. This includes £2.5m alongside £1.6m of Winter Pressures funding to offset the pressure from Home Care rising costs.

Community Services (overspend £82k)

- The key reasons for this overspend are a delayed MER within Family & Community Learning causing a cost of £458k partially offset by a reduction in spend within Community Support Workers of £112k due to vacancies and an underspends within Employment and Skills due to project slippage of £120k and £111k reduced spend on the 100 Apprenticeship Scheme.

Children & Families (overspend of £6.6m)

- Placement budgets are forecast to overspend by £3.3m mainly due to delays in anticipated savings of £3.1m and £460k full year impact of the 2017/18 overspend.
- Fieldwork Services are forecasting a £2.1m overspend. This is mainly due to £1.5m increased staffing to deal with increased caseloads and £600k in non-staffing budgets due to increased transport costs and contact time for children in care.
- Health Strategy is forecasting a £1.0m overspend on Short Breaks and Direct Payments due to delay in anticipated savings.

Commissioning Inclusion and Learning Service: (overspend of £307k)

- Commissioned Mental Health Services is forecasting a £531k overspend. This is due to unachieved savings across all three organisations which form part of the risk share (the Council, the CCG and the Care Trust). It is anticipated that this position will improve as the tripartite agreement matures. Early Support and Prevention is forecasting an underspend of £125k due to a contract variation in Carers Breaks.

Business Strategy (underspend of £324k)

- The main reasons for the business strategy forecast under spend, is due to a combination of a forecast reduction in staffing costs and overachievement of income targets across the service. These have been partially offset by the £100k mandatory leave pressure for the service.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS STRATEGY - PEOPLE	11,217	11,541	(324)	⇔
CARE & SUPPORT	114,220	104,852	9,368	⇧
CHILDREN & FAMILIES	72,076	65,511	6,565	⇔
COMMUNITY SERVICES	8,638	8,556	82	⇩
COMM'G INCLUSION&LEARNING SERV	25,469	25,162	307	⇩
GRAND TOTAL	**231,620**	**215,622**	**15,998**	⇧

DSG

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

Portfolio	FY Variance Month 9 £000s	FY Variance Month 6 £000s	Movement £000s
BUSINESS STRATEGY - PEOPLE	382	309	73
CHILDREN AND FAMILIES	280	281	(1)
COMM'G INCLUSION&LEARNING SERV	1,331	1,156	175
COMMUNITY SERVICES	-	-	-
Grand Total	**1,993**	**1,746**	**247**

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

Business Strategy (overspend of £382k)

- This is mainly due to an overspend of £500k in the transport budgets as a result of continued increase in demand and costs.

Children and Families (overspend of £280k)

- This is mainly because of Children with Disabilities Placements forecasting an overspend of £322k, due to increase in demand and costs for these places.

Commissioning, Inclusion and Learning Services (overspend of £1.3m)

- This is mainly due to £850k forecast overspend on the SEND Growth Fund due to an increase in demand for special school places, £143k forecast overspend on Out of City SEN due to increased places and legal costs and £204k overspend on Independent Specialist Placements (ISP) due to an increase in demand and costs for these placements.
- There is also forecast staffing overspend of £120k in the SEN Early Years team.

Commentary

4. The following commentary comments on the main variances at service level from the last reported position at Month 6.

Care and Support

- The £9.4m overspend shown in the table above relates wholly to cash limit. This is an increase of £1.0m over the reported position at Month 6.
- The main reason for the movement in the cash limit forecast are:-
  - Access, Prevention and Reablement - £312k improvement mainly due to the capitalisation of equipment due to the change in the Housing Assistance Policy £215k, new forecast income travel grant £43k and the remainder is reduced staffing costs.
  - Learning Disabilities – £1.0m worsened position mainly due to £1.4m further unachievable savings, and £325k growth above that already assumed. This is mitigated by new income of £850k
  - Long Term Support is forecasting an overall worse position of £361k mainly due to increased costs on Home Care £200k which is due to higher numbers of clients, higher level of packages, a quicker route of triage to private provision and clients staying with us for longer. There is also increased cost of providing 20 beds through the 5Q initiative of £160k, an increase in other Short Term Care £95k, an increased bad debt provision of £220k and declared unachievable savings £160k. All this is partially offset by reductions in Nursing Care/Residential Care admissions resulting in improvement of £600k.

Community Services

- The service is forecasting a £82k overspend relating to cash limit with no movement on the DSG position. This is an improvement of £229k since the Month 6 Report.

- The main reason for the movement is reduced spend in Employment & Skills against Apprenticeships and Disadvantaged Area Funding of £231k.

Children and Families

- The service is forecasting a £6.6m overspend relating to cash limit and a £280k overspend on DSG. This is a reduction in the overspend of £2k from Month 6 on the cash limit and a reduction of £1k on the DSG overspend from Month 6.

Commissioning, Inclusion and Learning Service

- The service is forecasting a £307k overspend relating to cash limit and a £1.3m overspend on DSG. This is a reduction in the overspend of £349k from Month 6 on the cash limit and an increase of £175k on the DSG overspend from Month 6.
- The main reason for the improvement in the cash limit position is within Mental Health and is the inclusion of the Care Trust budgets and achieved savings into the Risk Share agreement in. Month 6 saw the first outturn which included information from all three organisations on Mental Health savings and further improvements since then have resulted in a £154k improvement in the Council's position. There has also been a contract variation in Early Support and Prevention of £125k specifically related to the Carers contract.
- The main reason for the movement in the DSG position is due to an increase in SEN forecast costs. Specifically an increase in the forecast of £89k for SEN growth, an increase in Out of City SEN placements costs of £52k and £30k additional costs on Independent Placements.

Business Strategy

- The service is forecasting a £324k underspend relating to cash limit and a £382k overspend on DSG. This is a reduction to the underspend of £81k from Month 6 on the cash limit and a £73k increase to the DSG overspend from Month 6.

Place Portfolio

Summary

5. The Place Portfolio is forecasting to be £1,059k under budget at Month 9, a favourable movement of £449k since Month 6.
6. The key variances include slippage in the delivery of planned budget savings on 'Place Change Programmes' and Housing General Fund of £3.5m, offset by both sustainable and one-off reductions in expenditure budgets which will not affect service delivery and staff savings from a voluntary early severance/retirement scheme of £4.5m, resulting in a net £1.0m forecast underspend.
7. The key reason for the favourable movement in net position since Month 6 is within City Growth. This is largely attributable to additional actual/forecast planning fees of

£0.4m reflecting current trends, all be with some risk should key developments not progress within anticipated timescales.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS STRATEGY & REGULATION	26,050	25,959	91	⇧
MAJOR PROJECTS	45	89	(44)	⇔
CULTURE & ENVIRONMENT	90,664	92,149	(1,485)	⇔
HOUSING GENERAL FUND	3,026	2,504	522	⇔
CITY GROWTH	27,969	27,810	160	⇩
TRANSPORT AND FACILITIES MGT	41,798	42,101	(303)	⇩
GRAND TOTAL	**189,553**	**190,612**	**(1,059)**	⇩

Resources Portfolio

Summary

8. As at Month 9 the Resources Portfolio is forecasting a full year outturn of an underspend of £208k. The key reasons for the forecast outturn position are:

   - An underspend of £400k due to reduced costs of pensions for former employees; £200 of other savings through good management of resources including holding vacancies or deploying staff to deliver services in- house rather than engaging external contractors e.g. training and development courses; £100k additional external income earned in Legal services, offset by £500k lower collection of rebates where the reduced cost of some negotiated contracts has been passed direct to spending department rather than being received centrally.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
BUSINESS CHANGE & INFORMATION SOLUTIONS	5,422	5,680	(258)	⇩
CORPORATE REBATES & DISCOUNTS	(1,174)	(1,798)	624	⇔
CUSTOMER SERVICES	5,985	5,937	47	⇔
FINANCE & COMMERCIAL SERVICES	6,206	6,449	(243)	⇔
HUMAN RESOURCES	5,142	4,964	178	⇔
LEGAL & GOVERNANCE	3,696	3,766	(70)	⇔
RESOURCES MANAGEMENT & PLANNING	185	197	(12)	⇔
TOTAL	25,462	25,195	267	⇩
CENTRAL COSTS	18,185	18,659	(474)	⇧
HOUSING BENEFIT	156	156	0	⇔
GRAND TOTAL	**43,803**	**44,010**	**(208)**	⇩

Commentary

9. The forecast outturn position for the Resources Portfolio has improved by £331k since Month 6. The principal reasons for this improvement are:

- A reduction of £163k in printer cost due to new contract being negotiated.
- An increase of £56k in the income from providing internal consultancy services to other parts of the Council.
- And numerous small improvements in Human Resources £80k, Finance and Commercial Services £51k and slightly higher than previously forecast procurement contract rebates £37k.

Policy, Performance and Communications Portfolio

Summary

10. At Month 9 the Portfolio is forecasting an overspend of £329k this is an improvement of £88k from the reported position at Month 6. This is predominantly due to reduced income of £458k on the Advertising contract following slippage in rolling out the new sites. This is partially offset by the savings mentioned below.

11. The improvement comes from an increase in the savings identified on Policy and Improvement team to mitigate the shortfall of income on the Advertising contract and a £66k reduction in cost for the Elections. Service.

Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
POLICY, PERFORMANCE & COMMUNICATION	2,505	2,176	329	⇔
PUBLIC HEALTH	(45)	(45)	(0)	⇔
GRAND TOTAL	**2,460**	**2,131**	**329**	⇔

Corporate Transactions

Summary

12. As at Month 9, the Corporate portfolio is showing a £4.2m 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.

13. The key reasons for the forecast outturn position of £4.2m is £3.2m of interest costs avoided by applying cash balances to capital programmes instead of undertaking external borrowing and the £1.0m release from the redundancy provision following review of service usage of redundancy to date.

14. This position has improved by £3.0m the principal reasons for the improvement £2.0m within capital financing reflecting the above trend and the declaration of the £1.0m release from the redundancy provision.

Financial Results

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

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
CAPITAL FINANCING	25,265	28,465	(3,200)	⇩
CORPORATE ITEMS	(481,839)	(480,841)	(998)	⇩
GRAND TOTAL	(456,574)	(452,376)	(4,199)	⇩

PUBLIC HEALTH BUDGET MONITORING AS AT 31st DECEMBER 2018

Purpose of the Report

1. To report on the 2018/19 Public Health grant spend across the Council for the month ending 31st Decemberr 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 9 the overall position was an underspend of £338k which is summarised in the table below.

Portfolio	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 6
PEOPLE	27,692	27,818	(126)	⇔
PLACE	2,867	2,942	(75)	⇔
DIRECTOR OF PH	1,833	1,970	(137)	⇔
GRAND TOTAL	32,392	32,730	(338)	⇔

5. The key reasons for the forecast positions spend are:

   - A £126k underspend in People as a result of underspending in Mental Health Commissioning Partnerships and Grants of £69k relating to underspends on contract costs, Locality Management of £14k relating to PH Community Project sickness saving, Multi-Agency Support Team savings of £14k due to vacancies and vacancy savings within the Drug and Alcohol Action and Coordination Team (DACT) of £53k. DACT supervised consumption, medication and needle exchanges show significant demand-led pressure overspends, partly offset by Residential Rehab underspends of £27k.
   - A £75k underspend in Place due employee savings on PH Infrastructure of £96k, partially offset by an overspend on the Adult Weight Management contract.

- A £137k underspend in Director of Public Health mainly as a result of non-staffing savings, less a staffing overspend on Public Health DPH, plus an over-recovery of income on PH Intelligence.

6. There are only minimal movements since the position reported at Month 6. The most significant of these are:

    - The movement in People is mainly as a result of an increased overspend in Enhanced (contraceptive) demand led services and less Genetics contract slippage.
    - The movement in Place is largely as a result reduced underspends on salaries on PH Infrastructure.
    - The movement in Director of Public Health is as a result of revised non pay costs.

HOUSING REVENUE ACCOUNT BUDGET MONITORING AS AT 31ST DECEMBER 2018

Purpose of this Report

1. To provide a summary report on the HRA 2018/19 revenue budget for the month ending 31st December 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 9 the account is forecasting a £181k positive variance from this budget position.

4. Projections influencing the outturn position include higher than budgeted rental income, savings on staffing and running costs and an expected reduction in borrowing costs. This has been offset by increased repairs and running costs. The position on the account will be monitored throughout the year.

Financial Results

Housing Revenue Account (excluding Community Heating)	**FY Outturn Month 9 £000s**	**FY Budget Month 9 £000s**	**FY Variance Month 9 £000s**
1.NET INCOME DWELLINGS	(141,767)	(141,707)	(60)
2.OTHER INCOME	(6,207)	(6,295)	88
3.REPAIRS AND MAINTENANCE	34,411	32,894	1,517
4.DEPRECIATION-CAP FUND PROG	41,593	41,593	0
5.TENANT SERVICES	52,177	53,072	(895)
5.INTEREST ON BORROWING	14,330	15,161	(831)
6.CONTRIBUTION TO CAP PROG	5,463	5,282	181
Total	-	-	-

Community Heating

5. The budgeted position for Community Heating is a draw down from Community Heating reserves of £419k. As at month 9 the position is a draw down from reserves of 410k, a forecast improvement of £9k. This is mainly due to lower than expected usage due to the milder weather.

Community Heating	**FY Outturn Month 9 £000s**	**FY Budget Month 9 £000s**	**FY Variance Month 9 £000s**
Income	(2,273)	(2,471)	198
Expenditure	2,683	2,890	(207)
Total	**410**	**419**	**(9)**

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COLLECTION FUND MONITORING
AS AT 31st DECEMBER 2018

Summary

1. In 2018/19 approximately £305.2m of SCC expenditure is forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

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

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

Income Stream	Budget 2018/19 £m	Billed to Date £m	Forecast Year End Position £m	Variance £m
Council Tax	-205.7	-169.4	-207.7	-2.0
Business Rates Locally Retained	-99.5	-95.6	-102.4	-2.9
TOTAL	**-305.2**	**-265.1**	**-310.1**	**-4.9**

4. As at the end of December, the local share of the Collection Fund Income Stream is forecasting an overall in-year surplus of £4.9m made up of a £2.0m surplus on Council Tax and a £2.9m surplus on Business Rates. This may seem a sizeable surplus however it represents only 1.6% of the budgeted income. The actual surplus for 2018/19 will be higher due to prior year Collection Fund surpluses feeding into this.

5. Due to Collection Fund accounting regulations, this surplus is not available for in-year use and will be fed into the budget process for 2019/20.

Council Tax

6. The forecast year end position for Council Tax is a surplus of £2.0m. This is primarily because of an additional £3.2m of Council Tax income offset by a £0.4m increase in exemptions and a £0.8m increase in discounts.

7. During the 2018/19, we have continued to see growth in the number of properties built in Sheffield, We budgeted for an increase in properties of 2290 from the baseline set in 2017/18. To date we have seen an increase of 2613 above that level, this has generated significant extra revenue.

Business Rates

8. The forecast year end position for Business Rates is a £6.0m surplus of which Sheffield's share is £2.9m. The £6.0m surplus is primarily made up of an increase on the Gross Rates Income Yield of £6.4m, a reduction in transitional protection payments of £3.4m, a reduction in the required appeals provision of £2.2m offset by an increase of £5.7m on reliefs. Further analysis of the business rates position can be found on the following pages.

Collection Fund - Business Rates	**Budget 2018/19 £m**	**Billed to Date £m**	**Forecast Year End Position £m**	**Variance £m**
Gross Business Rates income yield	-255.7	-263.3	-262.1	-6.4
LESS Estimated Reliefs	34.0	38.0	39.7	5.7
Losses on Collection	3.0	2.5	3.7	0.7
Losses on Appeals re Current Year Bills	6.7	0.3	6.3	-0.4
Increase (Decrease) due to appeals / bad debt provisions	0.0	-2.2	-2.2	-2.2
Net Collectable Business rates	**-212.0**	**-224.7**	**-214.6**	**-2.6**
Transitional Protection Payments due from Authority	8.8	5.4	5.4	-3.4
Cost of Collection allowance	0.8	0.8	0.8	0.0
Non Domestic Rating Income	**-202.4**	**-218.4**	**-208.4**	**-6.0**
Appropriation of net business rates:				
49.2% Sheffield City Council	-99.5	-107.4	-102.4	-2.9
1.0% SY Fire Authority	-2.0	-2.2	-2.1	-0.1
49.6% Government	-100.4	-108.5	-103.4	-3.0
0.2% Designated Areas	-0.5	-0.5	-0.5	0.0
Total Appropriations	**-202.4**	**-218.4**	**-208.4**	**-6.0**

Gross Rates Income Yield

9. The Gross Business Rates Income Yield has, to date, increased by £6.8m compared to total budget. This primarily down to two large hereditaments being added to the list post budget setting amongst a number of other smaller increases. The Gross Business Rates income yield used in the budget was based on a total rateable value for the city of £535m. This rateable value had risen to £542m by March 2018.

10. As part of the 2018/19 budget setting process, we built in expected decline in gross business rates due to large scale retail redevelopments. For the period of

the redevelopment, it is expected that business rates income will drop due to affected hereditaments appealing their rateable value. The development was expected to commence in the 3rd quarter of 2018/19 however this is now not expected to start until February 2019 at the earliest. Should this delay in the development continue, then the surplus for 2018/19 will increase.

Reliefs and Discounts

Reliefs	Budget 2018/19 £m	Billed to Date £m	Forecast Year-End Outturn £m	Variance £m
Small Business Rates Relief	11.5	12.6	13.1	1.6
Transitional Relief	-8.8	-5.4	-5.4	3.4
Mandatory Charity Relief	22.7	23.1	23.4	0.7
Discretionary Relief	1.2	0.4	0.5	-0.7
Empty Property / Statutory Exemption	6.4	7.0	7.2	0.8
Partly Occupied Premises Relief	0.3	0.1	0.2	-0.1
New discretionary reliefs	0.7	0.2	0.7	0.0
	34.0	**38.0**	**39.7**	**5.7**

11. Most reliefs and discounts are generally awarded in full at the point of billing at the start of the year. The total level of reliefs awarded to the end of December amounts to £38.0m which is £4.0m above the £34.0m in the budget. These are expected to rise to £39.7m by year end. The increase in reliefs is primarily due to transitional relief payments not being as significant as expected.

12. The most significant variations are in relation to small business rates relief and transitional relief. The mandatory small business rates relief is currently £1.1m over budget, however this is expected to increase to a £1.6m overspend. Transitional relief is based on the change in Gross rates payable charges between 2017/18 to 2018/19 and is subject to fluctuation dependant on appeals being granted in either year.

Appeals

13. Appeals are notoriously difficult to forecast due to the volatility of the process. The 2018/19 Council budget anticipated £6.6m of in year refunds resulting from appeals. To date, the number of Check, Challenges and Appeals processed appears to have reduced on previous years. Data released by MHCLG in November 2019 show a national reduction in Check, Challenges and Appeals however we have very little cumulative data at a local level. There were only 470 outstanding challenges for South Yorkshire as at 30th September 2018 of which approximately half will relate to Sheffield.

14. Losses on Appeals/Increase in Appeals Provision are currently forecast to be £2.2m under budget (see paragraph 17) however this position is very fluid and will require careful monitoring in the coming months.

15. The two major outstanding issues relating to appeals concerned ATM's and Virgin Media. The case concerning ATM's was recently upheld at the Court of Appeal however the VOA has petitioned the Supreme Court to be allowed to appeal this decision. The case is currently decided in favour of the parties bringing this suit and we have a prudent provision to meet all obligations should this be the eventual outcome.

16. Virgin Media had a number of very specific appeals which could have potentially seen it all but removed from the Sheffield Valuation list. The VOA has notified us that all appeals have now been withdrawn which has seen £2.2m released from the provision and increased the collection fund surplus this year.

Conclusion

17. The forecast in year position of a £4.9m surplus on the Collection Fund is healthy and with three months of the year to go, this is not expected to substantially alter. There will be monthly monitoring to ensure we remain careful monitoring will be required to ensure that this position remains at this level.

18. The delay in the major retail development has had a positive impact on the current in-year surplus, should this be delayed further, the in-year surplus will increase further.

19. Sheffield City Council currently retains 50% of all business rates however it will retain 75% from 2020/21. The development is expected to take several years to complete and so any delay now will result in a business rates income being lower for longer under the 75% regime. This will have an adverse impact on future budgets.

CORPORATE RISK REGISTER

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

2019/20 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.

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. The Council has used reserves to cash-flow capital spend, rather than borrow externally) to help support the revenue budget and mitigate residual counterparty default risk on cash investments. In operating with an under borrowed position the Council exposes itself to interest-rate risk. This risk is exacerbated by the uncertainty created by the on-going Brexit negotiations. Recognising this, our Treasury Management function 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. As at 31st December 2018, there were still over 500 properties relating to the 2010 valuation list with a rateable value of approximately £75m under appeal in Sheffield.

7. Not all of the £75m rateable value noted above is at risk and not all the appeals will be successful. However due to uncertainty around these factors prudent provisions are taken whenever apropriate to mitigate the loss of income as a result of successful appeals.

8. Of the 500 properties outstanding, approximately 40% are ATM's. There is a longstanding legal case concerning the right to charge Business Rates on ATM's. The case has currently been decided in favour of the the supermarkets bringing the case however the VOA has appealed the right to petition the Supreme Court against this ruling. Sheffield City Council has fully provided for the risk of losing this appeal.

9. 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 eventually 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 which has been taken into account when compiling the 2019/20 budget.

10. The appeals process following the 2017 Revaluation has also changed and is now 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.

11. To date, the number of Check, Challenges and Appeals processed appears to have reduced on previous years. Data released by MHCLG in November 2019 show a national reduction in Check, Challenges and Appeals however we have very little cumulative data at a local level. There were only 470 outstanding challenges for South Yorkshire as at 30th September 2018 of which approximately half will relate to Sheffield.

12. Up to the point at which the General Election was called for June 2017, the local government sector was working on the assumption that 2019/20 would see the implementation of 100% business rates retention, the implications of which were covered in significant detail in last year's MTFS.

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

14. The Council's financial position is significantly determined by the level of Business Rates and Council Tax income. Each of these may be subject to considerable volatility, especially give the legislative changes above, and will require close monitoring and a focus on delivering economic growth to increase our income and on delivering outcomes jointly with other public sector bodies and partners.

Medium Term Financial Analysis

15. On 18th July 2018, Cabinet considered a report of the Executive Director of Resources entitled Medium Term Financial Strategy (MTFA) 2018/19 to 2022/23. This report provided an update of the Council's MTFS to reflect the budget decision of the Council for 2018/19 and the potential impact on the next 5 years of the Government's plans for deficit reduction. This report established the planning scenarios for the medium term.

16. 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. These reductions in RSG will exceed £69m including 2018/19.

Implementation of savings proposals

17. The MTFA attached in Appendix 10 describes a net revenue funding gap of £31.1m by 2022/23. This position assumes the delivery of £68.7m of savings in that term. The risks of delivery of savings in all years 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. These risks are underscored by the need for the Council to identify and deliver additional savings to be able to address the £31.5m gap. The risk is that non-delivery of budgeted savings will create a threat to the medium term financial sustainability of the Council.

18. 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.

Pension Fund

19. 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.

20. 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.

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

Economic Climate

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

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

External Funding

24. 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.

25. 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.

26. 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.

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

Taxation

28. As a general rule, the Authority is able to recover the majority of the value added tax (VAT) incurred on its payments to suppliers, i.e. its input tax. There are, however, special rules surrounding the recovery of input tax relating to supplies that are deemed 'exempt' from VAT, e.g. selling, leasing and letting of commercial land and buildings, education and insurance services. The VAT Act 1994 allows local authorities to recover input tax incurred in providing VAT-exempt supplies, so long as the tax attributable to exempt activities is less than 5% of the VAT incurred on all goods and services purchased.

29. The Council took advantage of its partial exemption position when making an exempt lease to a strategic partner as part of the Heart of the City development, delivering substantial savings. The Council has agreed a 7-year average partial exemption calculation with HMRC due to the spikes in construction costs which result in a breach in a couple of individual years. Any breach of the agreed threshold over the term would lead to substantial VAT recovery by HMRC.

30. Building the lease into the Authority's 7-year average partial exemption calculation leaves us at just below 4% in terms of the 5% limit, i.e. headroom of just over 1%. As a result, continual monitoring of our partial exemption position is vital in ensuring that we do not breach and also to inform decision-making on future projects being undertaken by the Authority.

31. Land and property transactions potentially pose one of the greatest risks of partial exemption breach. The Tax Team currently engages with colleagues in the Property Services team on at least a monthly basis to establish whether planned land and property transactions are likely to cause any partial exemption issues. In addition to this, communications are due to be issued in the next month to Heads of Service in portfolios making exempt supplies, which will further raise awareness of the partial exemption issues currently being faced by the Authority. Furthermore, systems have been developed internally to enable effective monitoring.

Treasury Management

32. The Council proactively manages its counter-party risk. 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 has diminished over the last few 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 diversified and liquid funds.

33. As part of the 2018/19 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.

34. 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 (current and past unfunded expenditure). This is intensified by the size and timing of investment requirement arising from the development of the Heart of the City II project and any divestment. Added to this are 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.

35. 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. Work continues to improve systems and control measures; following the major system upgrade and the introduction of secure manual telephone system during 2017/18 which brought significant improvements to the handling of card data and to reflect the changing nature of the Council's card data environment.

36. A key supplier of card payment services have indicated that they will withdraw from the market with effect from 31st May 2019 and we therefore have to move card payment traffic to another provider at relatively short notice. Contract negotiations with the Council's main payment services provider are being brought to a conclusion and we would anticipate undertaking work to implement the transfer to happen early in the new calendar year. Given the importance of the payment channel we have also established back up plans to mitigate some of the effects of this service being terminated. This situation may be further exacerbated by further contractual changes as a result of the Tech2020 programme.

37. The Council currently had one advance payment outstanding with a major supplier in return for a saving on the contract cost.. Following changes to service provision, the arrangement ceased in December 2018 bring any exposure for the monies advanced to an end.

38. IFRS 9 introduces a new expected credit loss model which broadens the information that the Council is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account and this will result in the earlier recognition of larger impairments. Given the Council has a number of loans that have been award on a 'non-commercial' basis, there is the potential that impairment provisions on these loans will increase and impact on revenue budgets.

Welfare Reforms including Universal Credit

39. 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.

40. The most significant reform, the introduction of Universal Credit (UC) which replaces HB for those of working age, is being rolled out in Sheffield with full take up expected in 2023 or later.

41. UC poses a significant financial risk to the Council as support towards housing costs, which is currently paid through HB direct to the Housing Revenue Account will in most cases, 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.

42. 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. It is however committed to not evicting a tenant as a result of arrears due to delays in universal credit payments.

43. 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

44. 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.

45. 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 £500k and remains a risk for any future conversions, especially with the expansion of the academy conversion programme.

46. 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

47. There has been an increase in demand and costs for services for children social care both in terms of placement costs, fieldwork costs and support costs.

48. 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

49. 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.

50. The new year will see a continuation of the pooled budget arrangement with the Clinical Commissioning Group and the 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 strengthen within the arrangement to ensure that all partner organisations benefit from the joint working and that the clients receive the right level of support irrespective of where the funding of the service happens.

51. 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 potentially redress some of the continued increases seen over the last two years.

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

2018/19 Revenue Budget savings

53. The Place budget comprises three significant contracts - Streets Ahead programme, Waste Management and the South Yorkshire Passenger Transport Levy – which together absorb the major part of the portfolios General Fund support. The Portfolio cannot meet projected reductions in local authority funding by only reducing costs in the services that share remaining part of the General Fund budget without a significant reduction to those services. Thus in the 2015-16 Business planning round, the Portfolio's strategy was based on reducing the cost of these contracts to preserve the other services.

54. The South Yorkshire Transport Levy has been successfully reduced and savings have now been agreed and are in delivery. Savings from within the Streets Ahead commenced in 2017/18. Following a renegotiation of the Waste Management contract in first part of 2018, substantial savings were achieved.

55. This has supported the Place budget but made further savings a challenge without new ideas and partner cooperation.

56. The Portfolio has also developed further strategic interventions including reducing the level of support to Sports Trusts, and is embarking on a Place Change Programme to review all the other services seeking a business-like approach to service delivery. Realising the efficiencies and opportunities within these reviews are crucial to the Portfolio delivering a sustainable balanced position going forward. Delivery of the Sports Trusts savings will be dependant on the performance of the Council's partners and the general leisure market conditions. This is being carefully monitored.

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

58. The Council has committed to a number of positive capital investments in the city, in particular taking forward the Heart of the City II project, involving substantial spending over the next 7 years, financed by an assumed significant growth in business rates and long term borrowing. This carries significant levels of risk in relation to cost increases and letting demand which if these were to crystallise would result in additional pressure on Capital and Revenue budgets.

Housing Revenue Account Risks

59. There are a number of future risks and uncertainties that could impact on the 30 year HRA business plan. Work is continually ongoing to assess the financial impact of these. Identified risks to the HRA are:

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

Capital Programme Risks

Project Cost Control

60. 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 Growth

61. 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

62. The Council supports the on-going development of the Olympic Legacy Park to regenerate the Lower Don Valley. Some parts of the infrastructure need private party or external funding to realise the vision. The Council has an obligation to provide a number of facilities to the educational establishment facilities on site against a very

tight timescale. If the other site developments do not proceed in time, the Council may have to step in with funding which will place additional strain on the funding of the capital programme.

<u>Heart Of the City 2 (formerly Sheffield Retail Quarter)</u>

63. 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.

64. 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.

65. The route for delivery of the remainder of the Heart of the City II has changed since originally approved. The Council 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.

66. 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. As a result of this approach a further £35m has also now been approved for the development of blocks B & C of the scheme.

67. 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.

68. 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.

69. 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.

70. 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

71. 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. Initial forecasts indicated sufficient funding to repay the cash flow would be received from Government by 2021/22. However, the recent announcement of a lower than expected settlement for 2020/21 (£6.4m compared to £10m expected), and further emerging pressures in the programme will require this assumption to be revisited.

72. In the event of a change of government policy which further 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.

73. 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.

74. Basic Need funding allocations for the purpose of school expansion are now confirmed up to 2020/21. The modelling of the Schools Capital Programme has been revised in light of the recent funding announcement reducing the forecast allocation to £6.5m p.a. from £10m for 21/22 and 22/23. Any further reduction in these estimated amounts will delay the timescale for the repayment of the cash flow and also any future investment.

CAPITAL PROGRAMME MONITORING AS AT DECEMBER 2018

1 - Statement of Budget Movement

The table below summarises the movement in budget from month 6 to month 9, and provides the Capital programme budget position as at December 2018.

	2018/19	2019/20	Future	Total	Comments (on key changes since Month 6)
Month 6 Approved Budget	246.8	124.7	335.3	706.8	ADDITIONS + £0.1m in relation to the Sheffield Lakeland Partnership, £3m in relation to the Culvert Renewal Programme, £0.5m in relation to Sanderson's Weir Fish Pass Installation and £0.2m for various feasibility work approvals. VARIATIONS + £3.9m relates to the inclusion of the full budget for the IRR junctions scheme following completion of feasibility and £4.3m inclusion of Grey to Green Delivery Phase 2. £0.9m represents increases in the Schools Maintenance Programme. relating to structural and fire risk assessment works. - £0.7m reduction in budget for Brunswick Primary School heating replacement. REPROFILE - This is largely accounted for by reprofiling the Heart of the City II programme.
Additions	0.5	2.4	1.0	3.9	
Variations	1.6	6.0	0.8	8.4	
Reprofile	-8.2	10.2	-2.0	0.0	
Slippage and Acceleration	-0.7	0.5	0.2	0.0	
Month 9 Approved Budget	240.0	143.8	335.3	719.1	

2 - Top 20 Projects by value as at December 2018

The table below summarises the Top 20 projects in the Capital Programme by budget value in 2018/19. This group accounts for 72% of the 2018/19 capital programme. The major in-year and all-year variations are explained below and in sections 4 and 5.

PROJECT	Current Year								Remaining Life of Project					Comments
Values in £000	YTD Actual	YTD Budget	YTD Variance	FY Outturn	FY Budget	FY Variance	Variance %	Delivery Forecast RAG	All Years Outturn	All Years Budget	All Years Variance	Variance %	Delivery RAG	
Srq Offices	31,014	31,573	(559)	33,431	35,431	(2,000)	-5.6%	G	35,424	35,431	(7)	0.0%	G	See Item 4.3
Pitched Roofing & Roofline	8,778	15,423	(6,646)	11,811	24,074	(12,264)	-50.9%	G	44,500	44,574	(74)	-0.2%	G	See Item 4.1
Astrea Academy	14,066	17,224	(3,158)	21,919	20,959	960	4.6%	A	21,919	20,959	960	4.6%	A	See item 5.3
Msf Finance	6,373	6,373	0	12,945	12,945	0	0.0%	NR	91,091	91,091	0	0.0%	NR	
Mercia School	9,057	10,226	(1,169)	9,598	10,871	(1,273)	-11.7%	G	10,419	10,884	(465)	-4.3%	G	See Item 4.8
Kitchen/bathrm Planned Replmt	5,665	6,688	(1,022)	8,130	8,043	87	1.1%	G	23,589	18,202	5,387	29.6%	G	All years overspend relates to additional year budget awaiting approval as part of Housing Programme review
Electrical Strategy	5,666	5,282	384	7,820	7,314	506	6.9%	G	37,430	30,430	7,000	23.0%	G	See item 5.4 re in year o/spend. All years overspend relates to additional year budget awaiting approval as part of Housing Programme review
Brownfield Site	2,733	2,852	(120)	6,220	6,220	0	0.0%	NR	8,817	8,817	0	0.0%	NR	
Programme Management Costs Gf	2,710	2,710	(0)	5,469	5,420	49	0.9%	G	13,599	13,550	49	0.4%	G	Overspend due to purchase of freehold at Blackstock Road
New Build Coun Hsg Ph 4a	185	2,472	(2,288)	242	4,691	(4,449)	-94.8%	A	19,814	15,046	4,768	31.7%	A	See item 4.2 re: in year slippage. All year overspend relates to latest estimate of costs following receipts of stage 1 design. Further approvals to be brought forward.
Knowledge Gateway	2,930	3,225	(295)	3,838	4,661	(824)	-17.7%	A	5,180	5,017	163	3.3%	A	Issues have been encountered in the programme due to other stats work in the area and delay to demolition element. Cost overrun now forecast.
Brown Bin Implementation	2,562	4,141	(1,579)	4,488	4,488	0	0.0%	NR	4,488	4,488	0	0.0%	NR	
Devonshire Quarter	-	-	-	4,463	4,463	-	0.0%	NR	5,100	5,100	-	0.0%	NR	
Council Hsg Acquisitions Prog	3,044	2,952	92	5,044	4,049	995	24.6%	G	47,755	12,625	35,130	278.3%	G	See item 5.2 re: in year overspend. All years overspend relates to additional year budget awaiting approval as part of Housing Programme review
Communal Areas-low Rise Flats	4,386	2,666	1,720	5,695	3,770	1,926	51.1%	G	26,895	19,970	6,926	34.7%	G	See item 5.1 re in year acceleration. All years overspend relates to additional year budget awaiting approval as part of Housing Programme review
Disabled Grants	1,663	2,358	(694)	2,565	3,361	(796)	-23.7%	G	11,346	11,361	(16)	-0.1%	G	More flexible use of grant due to be approved which will increase spend.
Digital Incubator	1,815	2,205	(389)	2,979	3,314	(334)	-10.1%	NR	3,424	3,424	(0)	0.0%	NR	Delays in the project have been experienced due to the need to carry out additional asbestos removal and ducting.
Ecclesall Permanent Extension	3,378	3,201	177	3,509	3,201	308	9.6%	G	3,509	3,201	308	9.6%	G	An increase in costs due to unforeseen works: additional work required as part of planning approval, extensive asbestos removal and a delay to works on site.
Sheffield Retail Quarter 2	1,603	1,729	(126)	2,958	3,009	(51)	-1.7%	G	6,671	6,671	0	0.0%	G	
S H Mgmt Fees Commissioned	1,879	1,879	-	2,505	2,505	-	0.0%	NR	15,181	12,600	2,581	20.5%	NR	All years overspend relates to additional year budget awaiting approval as part of Housing Programme review
Top 20 Value	109,506	125,179	(15,672)	155,631	172,791	(17,161)	-9.9%		436,152	373,442	62,710			
Rest of Programme	30,332	40,873	(10,541)	49,768	67,190	(17,422)	-25.9%		359,368	345,617	13,751			
Total Capital Programme Value	139,839	166,052	(26,213)	205,399	239,981	(34,582)	-14.4%		795,520	719,059	76,461			
% of Programme within the Top 20	78%	75%	60%	76%	72%	50%			55%	52%	82%			

3 - Current Year to date and Forecast Outturn Position

The forecast outturn position is £34.2m below budget. This represents an reduction of £7.6m from the £26.6m below budget reported at Mth 6. The key variances by board are explained below. The main reasons for this overall movement towards budget are an increased forecast of in year expenditure on the Astrea Academy project of £2m (although no further increase in overall costs) offset by a reduction of £550k in in year spend on Knowledge Gateway.

BOARD	YEAR TO DATE			FULL YEAR			Comments
Values in £000	Actual	Budget	Variance	Forecast	Budget	Variance	
HEART OF THE CITY II	37,490	37,976	(486)	42,911	46,248	(3,337)	See item 4.3. in addition further reprofiling of wider scheme due to block by block approach
HOUSING INVESTMENT	34,012	45,651	(11,639)	50,950	72,687	(21,737)	See items 4.1, 4.4, 4.5, 4.6,4.7, 4.9,4.10
PEOPLE CAPITAL & GROWTH	35,278	40,119	(4,841)	46,809	47,319	(510)	See items 4.8, 5.3,5.7,5.9 in addition current £759k projected underspend on Disabled Facilities Grant
QUALITY OF LIFE	11,889	13,814	(1,925)	20,776	20,763	12	
HOUSING GROWTH	7,265	10,239	(2,974)	18,802	22,834	(4,032)	See item 4.2
ECONOMIC GROWTH	7,245	8,276	(1,031)	11,241	12,394	(1,153)	Key variations on Knowledge Gateway and Digital Incubator explained in Section 2
TRANSPORT	2,933	5,001	(2,068)	7,294	8,933	(1,639)	Key slippage on: Broadfield Road Junction Scheme - £540k Blackburn Valley Cycle route - £250k Network management - £110k Saving on: Bus Hotspots - £160k Chesterfield Rd Key Bus Route - £240k
ESSENTIAL COMPLIANCE & MAINT	2,700	3,834	(1,134)	5,339	7,364	(2,025)	Key slippage on: Health & Safety Block Allocation £700k Moorfoot Lifts - £380k Corporate Building Programme Elements - £900k
GREEN & OPEN SPACES	1,027	1,142	(114)	1,277	1,438	(161)	Key Slippage Play Improvement Project - £90k Green Spaces Allocation £70k
Grand Total	139,839	166,052	(26,213)	205,399	239,981	(34,582)	

4 - Top 10 Forecast Slippage against Full Year Budget

The table below illustrates that of the £28.5m main forecast underspends against budget, £11.2m relates to delays in schemes in delivery or where contract has been awarded. while the remainder relates to expected savings/re-profiling of allocations not yet committed.

	Business Unit	Board	FY Budget	FY variance on budget	Explanation
4.1	Pitched Roofing & Roofline	HOUSING INVESTMENT	24,074	(12,264)	**REPROFILE** - Currently forecasting approx. £11,300,000 to complete the current contracts. Additional Responsive Repair costs have been added to the project, totalling approximately £280,000.00. **Re-Profile now awaiting approval**
4.2	New Build Coun Hsg Ph 4a	HOUSING GROWTH	4,691	(4,449)	**SLIPPAGE** - Full Year and year to date budget/actual: original fee forecast and anticipated start on site not achieved. NOTE that overall anticipated project costs are now increased from £15.1m to £19.9m. **SLIPPAGE NOW AWAITING APPROVAL**
4.3	Srq Offices	HEART OF THE CITY II	35,431	(2,000)	**SLIPPAGE** - Slippage relates to later completion and letting of retail units. **SLIPPAGE NOW AWAITING APPROVAL**
4.4	Ewi Non-traditional 2	HOUSING INVESTMENT	1,976	(1,926)	**REPROFILE** - No outputs or spend currently expected during this financial year - A high level project review took place on 20th August for EWI phases 2 and 3. It was agreed that the project business case, project delivery timescales, output specifications and CDS's commission would be reviewed. CAF has been processed to reduce budget for 18-19 & slip remainder into 19-20 as any likely costs this financial year will be CDS fees only. **REPROFILE NOW AWAITING APPROVAL**
4.5	Garage Strategy-improvement	HOUSING INVESTMENT	1,836	(1,630)	**SLIPPAGE** - Spend to date is only for surveying costs. Start on site had been planned for July, which did not go ahead. Budget reprofiled to take this into account showing underspend. Start on site currently planned for January 2019. Forecast spend to year end based on assumption of £1200 average per garage.
4.6	Ewi Non-traditional1	HOUSING INVESTMENT	2,187	(1,572)	**SLIPPAGE** - Contractor has submitted costs for the removal of the current cladding (R&D Survey) to 7 properties. We await costs for the remaining properties. If prices are acceptable for the improvement of the outbuilding works these will impact on the overall spend as yet we don't have the estimates. **SLIPPAGE NOW AWAITING APPROVAL**
4.7	Hanover Tower Block Cladding	HOUSING INVESTMENT	2,425	(1,552)	**SLIPPAGE - Negotiations with contractor now complete. SLIPPAGE AWAITING APPROVAL**
4.8	Mercia School	PEOPLE CAPITAL & GROWTH	10,871	(1,273)	**SAVING / REPROFILE** - Outturn forecast for all years accurate based on final account estimate and review of external consultant fees. CAF reduction to be processed December cycle. Meeting to present details are required monitoring within 90797 and ongoing liability for traffic assessment. **REPROFILE/BUDGET REDUCTION AWAITING APPROVAL**
4.9	Roofs & Externals (chs)	HOUSING INVESTMENT	1,000	(1,000)	**REPROFILE -** General allocation only - reprofiled as part of Housing Annual review
4.10	Ewi Non-traditional 3	HOUSING INVESTMENT	867	(857)	**REPROFILE** - No outputs or spend currently expected during this financial year - A high level project review took place on 20th August for EWI phases 2 and 3. It was agreed that the project business case, project delivery timescales, output specifications and CDS's commission would be reviewed. CAF has been processed to reduce budget for 18-19 & slip remainder into 19-20 as any likely costs this financial year will be CDS fees only. **REPROFILE NOW AWAITING APPROVAL**
	Total		85,358	(28,522)	

5 - Top 10 Forecast Overspends over Full Year Budget

The table below indicates that approx. £1.8m of the main current in year forecast overspends could result in additional calls on council capital funds. These relate to: the Schools Growth Expansion Programme which is already overcommitted (£1.4m) and will impact on timescale of repayment of GIF; increased call on HRA Major Repairs Reserve re: Windows and Doors Replacement ; potential increase to Prudential Borrowing re: Charter Square Enabling Works as part of Heart of The City development.

	Business Unit	Board	FY Budget	FY variance on budget	Explanation
5.1	Communal Areas-low Rise Flats	HOUSING INVESTMENT	3,770	1,926	**ACCELERATION** - Kier contract planned to end March 2019. Fortem contract planned to end December 2018. A CAF has been processed to increase the budget by bringing funds forward from subsequent years. This information is pending the latest cost reports being received from CDS and the Going Local review. Any remaining spend allocated to Going Local projects is to be agreed following completion of review by Head of Service. **ACCELERATION NOW AWAITING APPROVAL**
5.2	Council Hsg Acquisitions Prog	HOUSING GROWTH	4,049	995	**ACCELERATION** - A budget acceleration to allow for the additional number of properties previously forecast to be purchased this year is awaiting approval. However, forecast outputs have increased over the past month. The average cost of purchasing properties is currently less than the original forecast, so even though the forecast outputs now stand at 74, the adjusted budget should almost cover the cost of these additional properties. If the current trend continues, there may be further acceleration of £200-300k.
5.3	Astrea Academy	PEOPLE CAPITAL & GROWTH	20,959	960	**OVERSPEND** - Due to 6 month delays caused by statutory utility providers, and large amounts of unexpected rock excavation on the new build site CDS are currently forecasting a £960,000 overspend on the project. This includes no allowance for refurbishment of the former caretaker's house. **BUDGET INCREASE AWAITING APPROVAL**
5.4	Electrical Strategy	HOUSING INVESTMENT	7,314	506	**ACCELERATION**- Electrical Work carried out by Keepmoat as part of the elementals contract has now been charged to this BU and is shown separately on the PPR and equates to 104 out puts to date with potential for 200+ out puts at year end, if the progress on site continues at the same pace the estimated year end charge is as per the above statement. Wates are still achieving higher than expected outputs which is currently adding to the higher than expected year end spend shown on the BU PPR....although this is being slightly off set by the lower out puts being achieved by KIER. The expenditure at year end has the potential to be £506k over the available budget, this is due to the progress being achieved by Wates and the recharging of work from the elemental contract.
5.5	On Site Acquisitions	HOUSING GROWTH	483	463	**ACCELERATION** - Acceleration of payment as build out progressing quicker than expected.
5.6	Olp Fa Pitch	ECONOMIC GROWTH	-	388	**REPAYMENT** - Charge relates only to repayment of contribution overclaimed
5.7	Ecclesall Permanent Extension	PEOPLE CAPITAL & GROWTH	3,201	308	**OVERSPEND**- All years forecast variance is an estimate based on assessments by CDS cost manager. Negotiations with contractor to agree final account position. Update to be provided on progress and outcome in next monthly report. **BUDGET INCREASE AWAITING APPROVAL**
5.8	Windows& Doors Placement(chs)	HOUSING INVESTMENT	1,484	222	**OVERSPEND** - Wates have submitted a revised forecast final account of £5.83m. This total includes a potential claim of £280K. QS's continue to validate predicted final account and currently predict a final account of £5.66m. SCC predict a contract prelim sum of around £260K within the £5.66m outturn. An overspend is showing for the following reasons: 1. Additional works over and above designs. 2. Telecommunication and electrical works 3. Hardwood cills 4. Partition wall removals. All of these were unforeseen works when setting the budget. £204,000 of overspend is due to roofing works completed via R&M and agreed to be charged to this budget by Head of Service.
5.9	Totley Primary Perm Extn	PEOPLE CAPITAL & GROWTH	1,807	183	**OVERSPEND** - Overspend due to additional costs attached to Pedestrian Crossing and associated Red Zone. £161k overspend estimated at this stage following receipt of Amey estimated design and installation costs. Meetings with CYP client held to explain reasons and extent of overspend.
5.10	Charter Square Enabling Works	HEART OF THE CITY II	1,938	145	**OVERSPEND** - Yorkshire Water anticipated costs have been received but with no back up, This is now factored into forecasts.
	Total		45,005	6,095	

6 - Key Issues and Risks

Key Issues

- Forecast overspends at Astrea Academy, Ecclesall Infants and Totley Primary placing additional pressure on Schools Expansion Programme
- Proposed cost of funding expansion of EIS sporting facility to accommodate Don Valley Oasis Academy indoor sports facilities at a cost of £1.5m to Schools capital programme

Key Risks

- Emerging - Inner Relief Road Junction Scheme - Funding Agreement - pressure to meet SCRIF spend deadlines - increased costs due to stats works.
- Emerging - Knowledge Gateway Scheme - Delays and potential increased cost forecast.

Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2018/19

1 Executive Summary

1.1 Purpose

The purpose of this report is to update Members on the delivery of the 2018/19 Treasury Management Strategy Statement (TMSS) approved by Council on 7 March 2018 in relation to:-

- The economic outlook facing the Council
- The actual and proposed treasury management activities in terms of both borrowing and investments
- The key changes to the Council's capital investment activity as demonstrated in the Council's Prudential Indicators
- Compliance with the TMSS and the Annual Investment Strategy (AIS)

1.2. Treasury management

Treasury management activities comprise of:

- Managing the City Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
- Investing surplus cash balances arising from the day to day operations of the Council to obtain an optimal return whilst prioritising security and liquidity.
- Effective control of the risks associated with the above activities

1.3 Key Changes to the Treasury and Capital Strategies

- There are no policy changes to the TMSS or AIS. However, attention is drawn to the new requirement to produce a Capital Strategy by 2019/20.
- The 2018/19 Treasury Strategy (approved 7th March 2018) identified a net borrowing requirement of £167m to support the Capital Programme and to maintain the Council's under borrowing at sustainable levels.
- However, the Council has taken no borrowing during the first six months of the year as it has sufficient cash balances (£77.9m at September 2018).
- The authority is planning to borrow between £40m - £60m in the second half of the financial year based on current forecasts with the net financing costs contained within the existing capital financing budget.
- No further borrowing is anticipated in the current financial year, unless:

- ✓ short term investments fall at a higher pace than expected increasing the liquidity risk of the authority and/or;
- ✓ there is a significant change in markets (debt financing costs continue to be at historic low levels despite more recent rises) and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk

- The Council notes that the HRA debt cap has been removed with effect from the 29th October 2018. The Council will consider how the HRA can fulfil its ambition in terms of affordable housing within the core principles set out in the Prudential Code.

1.4 Recommendation

Cabinet is asked to note the report on treasury activity in the first six months of 2018/19, and our current expectations for the second half of the year.

2 Background

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- High-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- Overview of how the associated risk is managed
- Implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the full Council, (or Cabinet, with responsibility retained by the full Council), before 31st March 2019.

2.2 Treasury Management

The Council operates a balanced revenue budget, which should mean that cash raised will meet its cash requirements over the medium term. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

> "*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*."

3 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) has been adopted by this Council.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. This role is undertaken by the Cabinet Member for Finance and Resources.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

Key Changes to the Treasury Strategy

- None – except to note the changes to the Prudential Code and the Treasury Management Code have introduced new requirements such as the need to produce a Capital Strategy that will be put in place as part of the 2019/20 budget setting process.

4 Economic update

4.1 Economic Backdrop and Outlook

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

4.2 Interest rate forecasts

The Council's treasury advisor, Link Asset Services, provided the following forecast.

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The MPC has stated that future Bank Rate increases would be gradual.

At the moment, we do not think that the MPC will increase Bank Rate ahead of the deadline for Brexit in March 2019. We feel that the MPC is more likely to wait until August 2019 before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

5 Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) update

The TMSS for 2018/19 was approved by this Council on 7th March 2018.

There are no policy changes to the TMSS proposed in this paper.

However, the details in this report update the position in the light of the updated economic position and budgetary changes already approved; which marginally impact on the Council's Capital Financing Requirement.

Prudential Indicator 2018/19	***Original £m***	***Revised £m***
Authorised Limit	£1,690	£1,690
Operational Boundary	£1,640	£1,640
Capital Financing Requirement	£1,558	£1,566
HRA Debt Cap	£388	£388

Following the Prime Minister's announcement at the Conservative Party Conference that the HRA debt cap would be abolished; the Chancellor confirmed in the October 2018 budget that the effective date for the removal of the HRA debt cap was 29th October 2018. The Council will consider how the HRA can fulfil its ambition in terms of affordable housing in the coming years under the core principles set out in the Prudential Code – Affordable, Sustainable and Prudence.

6 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure 2018/19	**Original Estimate £m**	**Revised Estimate £m**
Economic Growth	73.6	81.5
Housing Investment	66.6	72.8
Housing Growth	14.7	22.8
Quality of Life	13.8	23.0
Transport	1.3	8.7
People – Capital & Growth	40.5	48.1
Internal Infrastructure	3.6	7.9

Total	**214.1**	**264.8**

The overall expected level of capital expenditure in 2018/19 has increased by £50.7m. However, the element to be financed by additional borrowing has only increased by £7.2m to £88.6m. Some of the overall increase represents slippage from 2017/18, and so is simply a timing issue rather than an increase to the overall capital programme.

The main areas impacting on this increase in capital expenditure are:

- Programme slippage from the 2017/18 capital programme - £21.5m
- £6.0m on acquisition of brown field sites for future housing
- £4.5m on the roll out of brown bins
- £5.4m on transport initiatives including £2m on clean bus technologies and the Local Transport Plan
- £3.2m on additional works for the Heart of the City II programme
- £2.7m on schools maintenance and other capital works
- £7.4m on other miscellaneous capital expenditure changes

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and thus the expected financing arrangements of this capital expenditure.

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). The CFR represents the underlying level of long term debt required to finance the total value of past and anticipated capital investment. However, the CFR will be reduced in part by revenue charges for the repayment of debt (these charges are called the Minimum Revenue Provision). This direct borrowing need may also be supplemented by replacing maturing debt and other treasury requirements.

Capital Expenditure 2018/19	**Original Estimate £m**	**Revised Estimate £m**
General Fund	135.3	180.7
HRA	78.7	84.1
Total spend	**214.1**	**264.8**
Financed by:		
Capital receipts	13.1	24.4
Capital grants	54.4	81.0
Revenue (mainly HRA related)	65.2	70.5

Capital Expenditure 2018/19	Original Estimate £m	Revised Estimate £m
Total financing	**132.7**	**175.9**
Borrowing need	**81.4**	**88.9**

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast CFR with an overall small increase on the forecast position at the end of March 2019 of £8.4m as a result of changes in the capital programme.

Capital Financing Requirement	2018/19 Original Estimate £m	2018/19 Revised Estimate £m
CFR – non housing	1212.1	1220.5
CFR – housing	345.9	345.9
Total CFR	1,558.0	1566.4
Net movement in CFR	**49.4**	**57.8**
Borrowing*	921.9	838.0
Other long term liabilities**	425.8	409.4
Total debt 31 March	**1,347.7**	**1,247.4**

*The expected borrowing has declined significantly on the basis that cash balances remain reasonably high (see section 6.4 for further information).

**On balance sheet PFI schemes and finance leases etc. A prepayment of £13.3m made at the end of 2017/18 to generate on-going revenue savings on the waste management contract mean the outstanding liability was lower than anticipated when the TMSS was set.

6.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.

Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent, i.e. it allows access to cheaper borrowing.

	2018/19 Original Estimate £'m	2018/19 Revised Estimate £'m
Gross borrowing	921.9	838.0
Plus other long term liabilities*	425.8	409.4
Total Debt	1,347.7	1247.4
CFR (forecast year-end position)	1,558.0	1,566.4
Internal Borrowing	210.3	319.0

** Includes on-balance sheet PFI schemes and finance leases etc.*

The Director of Finance and Commercial Services confirms that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Prudential Indicator – the Authorised and Operational Limits for external debt

There are further prudential indicator controls on the Council's overall level of borrowing. These are the Authorised Limit, which represents the limit beyond which borrowing is prohibited, which needs to be set and revised by Members, and the Operational Limit which makes allowance for future, as yet undefined, capital expenditure but sets a limit at which capital expenditure is not expected to exceed..

The Authorised Limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for future capital expenditure and unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (2018-19)	**Original Indicator £m**	**Current Position £m**	**Revised Indicator £m**
Borrowing	1,200	1,200	1,200
Other long term liabilities*	440	440	440
Total	**1,640**	**1,640**	**1,640**

** Includes on balance sheet PFI schemes and finance leases etc.*

Operational limit for external debt (2018-19)	**Original Indicator £m**	**Current Position £m**	**Revised Indicator £m**
Borrowing	1,160	1,160	1,160
Other long term liabilities*	440	440	440
Total	**1,600**	**1,600**	**1,600**

** Includes on balance sheet PFI schemes and finance leases etc.*

7 Borrowing

The table under section 6.4 shows the Council is forecast to have borrowings of £1,247.4m and utilise £319.0m of cash flow funds (internal borrowing) in lieu of externally borrowing; this includes £60.9m of HRA under borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that borrowing rates worsen

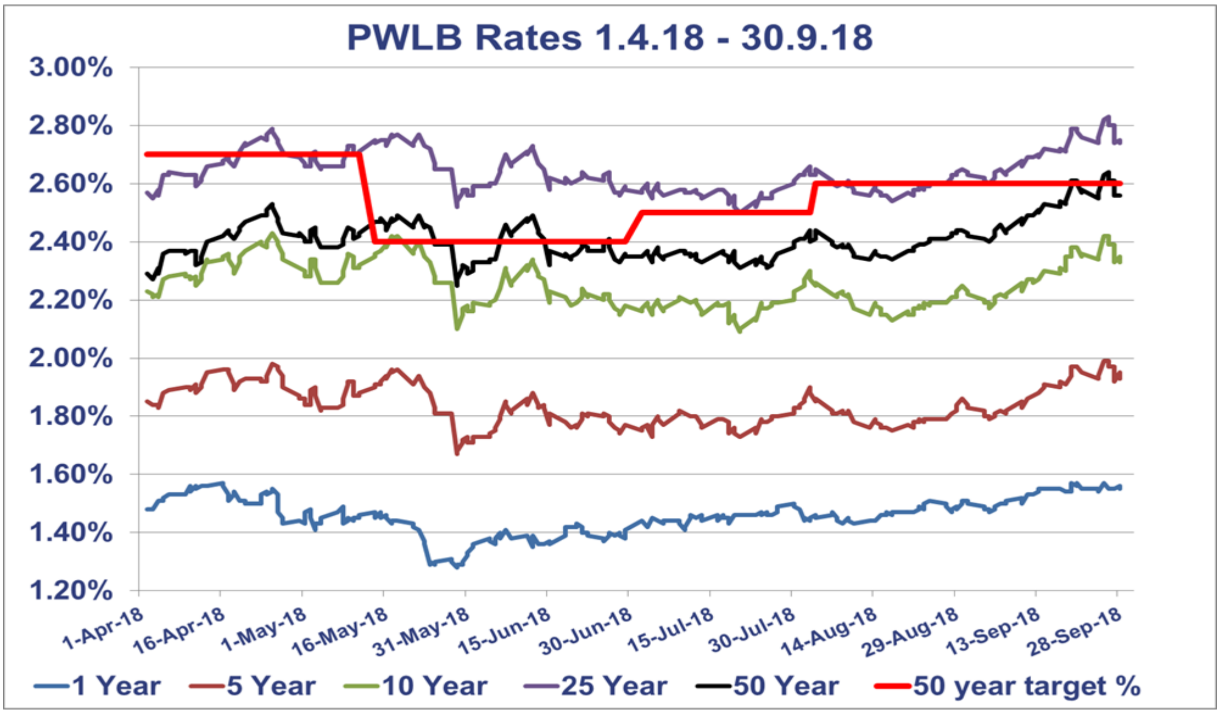
We originally anticipated adding £167.0m of new borrowing during the year to cover in-year capital expenditure and to maintain internal borrowing at sustainable levels.

Since the planned level of prudential borrowing has increased, we would expect to undertake further borrowing to maintain under borrowing at a sustainable level. However, to date we have undertaken no borrowing.

Given the strength of the forecast year end cash position, it remains prudent to delay all but £30m - £60m of the borrowing (depending on whether there is any re-profiling of planned capital expenditure during the remainder of the year) until next financial year unless the forecast cash position significantly worsens or if interest rates move against us – prompting us to lock in borrowing at historically low rates while we have the opportunity.

The HRA is forecast to be £60.9m under borrowed by the end of the year assuming no new borrowing is taken during the current financial year as it has sufficient reserves to meet its capital investment plans for the current financial year and maintain this level of under borrowing.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date.



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

8 Debt Rescheduling

Debt rescheduling opportunities have been limited following the increase in the margin added to gilt yields and with the current economic climate, and consequent structure of interest rates that has impacted PWLB new borrowing rates.

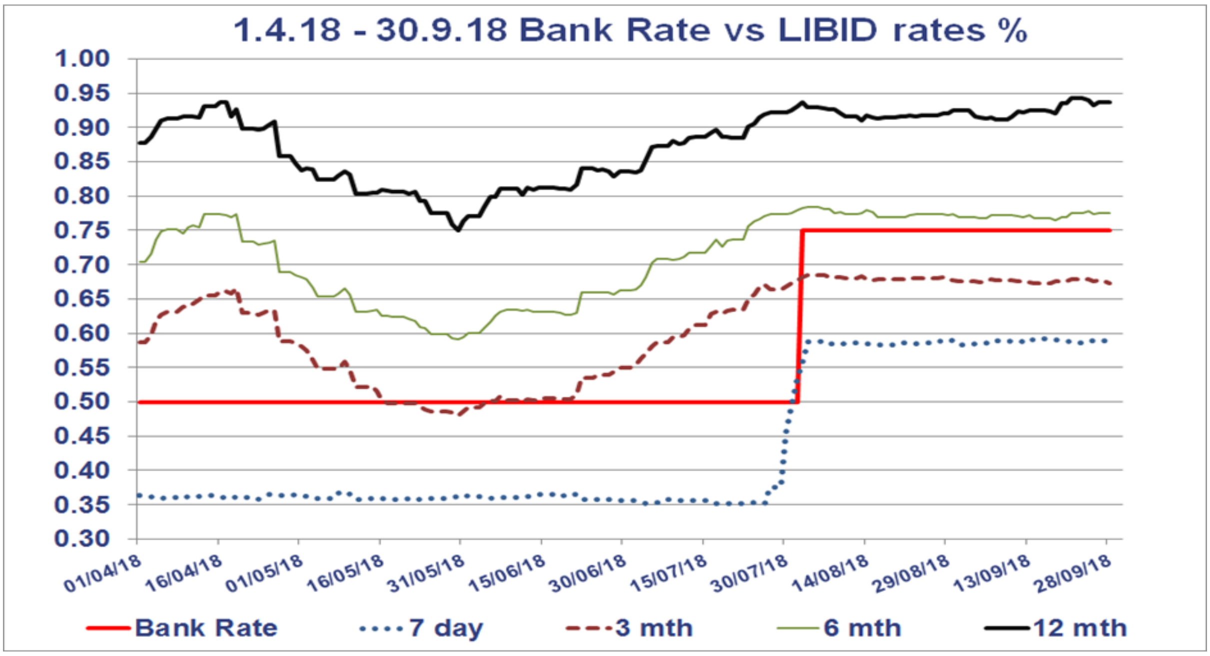
No debt rescheduling was undertaken during the first six months of 2018/19.

The Council will remain vigilant for any opportunities that may arise for debt re-scheduling of either PWLB or market debt that offer potential savings. We have recently been approached by a financial institution to consider repaying a loan which can then be re-financed at current market rates. At the time of writing this report, we are assessing the value for money of this offer, so a decision has not yet been made. We will seek approval for any rescheduling decision from the Executive Director of Resources and the Cabinet Member for Finance and Deputy Leader.

9 Investment Portfolio 2018/19

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

As set out in Section 3, the investment market remains difficult as investment returns are very low and in keeping with the prevailing UK Bank Base Rate (i.e.0.5% - prior to the August 2018 increase to 0.75%). The continuing potential market volatility, its impact on banks and forecast calls on the authorities' cash balances, prompts a short term, low risk strategy. Given this risk environment, investment returns are likely to remain low – albeit reflecting the UK Base Rate. A graph of how key benchmarks have moved over this period is shown below.



The Council held £77.9m of investments as at 30 September 2018 (£90.1m at 31 March 2018) and the investment portfolio yield for the first six months of the year is 0.66% against a benchmark of 0.58% (average UK Base Rate for first six months).

A full list of investments held as at 30 September 2018 is shown below:

Type	**Counterparty**	**Outstanding Balance £m**	**Current Rate %**
Money Market Fund	BNP Paribas InstiCash	£12.4	0.68%
Money Market Fund	Federated Prime Rate	£26.6	0.70%
Call Account	Santander UK plc	£15.0	0.90%
Call Account	Barclays Bank plc	£20.0	0.75%
	Total	**£77.9**	

<u>Investment Counterparty criteria</u>

The investment counterparty criteria selection approved in the 2018/19 TMSS is meeting the requirement of the treasury management function.

10 Compliance

The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) and confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

APPENDIX 1: Approved countries for investments

As at 30th September 2018, the approved list of countries allowed to be used for investments are shown below.

Based on lowest available rating

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-
- Belgium
- Qatar