

## REVENUE BUDGET & CAPITAL PROGRAMME MONITORING AS AT 31<sup>st</sup> MARCH 2019

### Purpose of the Report

1. This report provides the Financial Outturn statement on the City Council's Revenue Budget and Capital Programme. The first section covers Revenue Budget Monitoring. The Capital Programme is reported at paragraph 27.

### REVENUE BUDGET MONITORING

#### Summary

2. The Council finished the year with an overspend of £4.6m on the General Fund budget. This is obviously a concern, as it shows the financial pressure the Council is under, with, in particular, a backdrop of rising cost and demand pressures within Social Care services and sector-wide funding issues. Sheffield is not alone in this – the Local Government Association predicts an overall funding gap for local authorities of £3bn in 2019/20, and £8bn by 2024/25<sup>1</sup>. The Council's deficit would have been much higher but for other positive movements in budgets, such as unexpected grant income, deferred capital financing charges and reductions in spend in other services. This is a similar message to 2017/18– large social care overspends, offset by improvements in other services and corporate budgets in an attempt to balance the position. However, action is clearly needed to address the position.
3. In March 2019 the Council approved its 2019/20 Revenue Budget. As a response to the pressures in Social Care services outlined above, Social Care budgets as a whole were increased by £20m. This increase was funded by a prudent, one-off release of earmarked reserves and the Collection Fund surplus. The expectation is that this increase stabilises the General Fund budget for 19/20, to allow longer-term work to bring future budgets into balance.
4. Consequently the Council's medium term planning has taken in to account the pressures outlined in this report, and there are plans to bring the Council's budget back to a stable footing. These plans do however rely upon the delivery of agreed savings and the successful mitigation of pressures, including agreeing service changes jointly with partners in Health. The Council also continues to press Central Government to provide additional funding to recognise the pressures within social care services locally and nationally.

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<sup>1</sup> <https://www.local.gov.uk/about/news/funding-black-hole>

5. The outturn by Portfolio is summarised in the table below:

Portfolio	FY Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
PEOPLE	250,573	235,228	15,345	↓
PLACE	196,584	198,272	(1,688)	↓
PPC	3,229	3,145	84	↓
RESOURCES	5,168	7,211	(2,043)	↓
CORPORATE	(450,914)	(443,856)	(7,058)	↓
<b>GRAND TOTAL</b>	<b>4,641</b>	<b>-</b>	<b>4,641</b>	<b>↓</b>

6. In terms of the outturn position of £4.6m overspend, the key reasons are:

- **People** finished the year with an overspend of £15.3m. The key features of this position are:
  - An overspend against Children & Families budgets of £6.7m, including £4.0m of delays to anticipated savings, £1.8m overspend on Fieldwork staffing costs due to increased caseloads and £572k overspend in non-staffing budgets relating to transport costs and contact time for children in care. The service also carries a £472k overspend relating to the removal of mandatory leave for employees.
  - An overspend of £9.2m in Care and Support, due to £2.6m of unachieved savings within Learning Disabilities services, £5.3m of cost pressures due to increased activity in home care provision and £1.4m of additional costs in the roll forward of clients.
  - There are a number of smaller movements within this position. **Appendix 1** provides a fuller picture on a service-by-service basis.
- In the **Place** Portfolio, the key outturn variances include slippage in the delivery of planned budget savings on the Place Change Programme and Housing General Fund (£3.5m), offset by sustainable and one-off reductions in expenditure budgets which will not affect service delivery, and staff savings from a voluntary early severance/retirement scheme (in total £5.2m), resulting in a net £1.7m underspend.
- **Resources** reported an underspend of £2.0m. The principal reason for this is a review of the bases for apportionment of corporate support services and accommodation of office staff to the Housing Revenue Account, resulting in a £1.7m improvement against budget. This underspend is increased by £468k due to reduced costs of pensions for former employees, £200k of general small savings and by utilising in-house staff instead of external resources, and £200k

savings due to contract price renegotiations. This is offset by £617k of reduced contract rebates negotiated by Resources, where the resulting benefit from the reduced cost of the contracts has remained within the spending departments.

- **Policy, Performance & Communication** are showing an overspend of £84k. The prime movements within this overspend are £261k of reduced income against the advertising contract, with some offsetting savings identified across the service.
- **Corporate** are reporting an underspend of £7.1m. This is due to £4.0m of improvements within Capital Financing following lower borrowing costs than forecast in the budget, and the capitalisation of borrowing costs relating to the Heart of the City Development, £2.2m of grant income announced in December 2018 (therefore not in the budget) and £1.0m of the corporate redundancy provision not needed to fund employee reduction schemes.

7. Fuller details of all reductions in spend and overspends within Portfolios and significant movements from the Month 9 Report can be found in **Appendix 1**.

## Public Health

8. Services funded by Public Health grant are showing a £234k 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

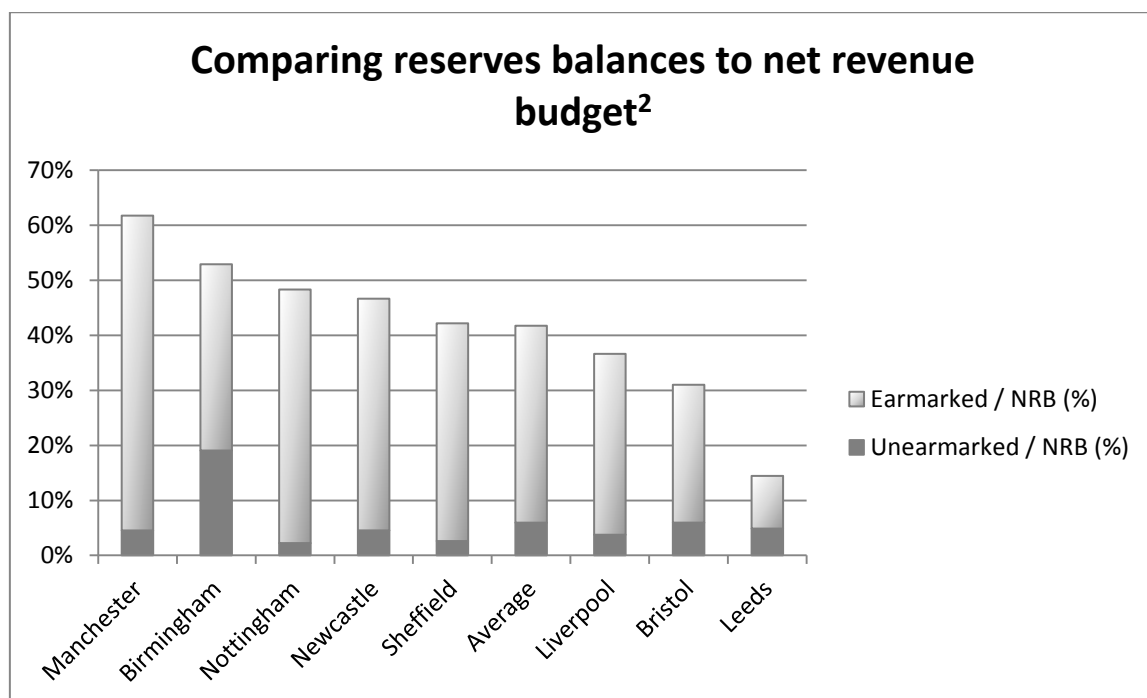
9. The 2018/19 budget is based on an assumed in year surplus position of £23.6m which is to be used to fund the ongoing HRA Capital Investment Programme. The outturn position is an £81k adverse movement from budget. Further details of the Housing Revenue Account can be found in **Appendix 3**.

## Unearmarked and earmarked Reserves

10. Within the existing statutory and regulatory framework, it is the responsibility of the Executive Director of Resources to ensure that the Council has an adequate level of reserves and that there are clear protocols for their establishment and use.
11. Useable revenue reserves balances as at 31st March 2019 are estimated to be £208.3m, pending audit scrutiny. These reserves comprise mainly of earmarked reserves, and can be seen in **Appendix 4**.
12. Included in the above total is £8.1m for unearmarked reserves, which represents just 2.0% of the 2018/19 net budget requirement of £401.2m. Unearmarked reserves remain below the minimum prudent level recommended by the Executive Director of Resources, mainly as a result of the £4.6m overspend in 2018/19. This reserve is to be returned to the minimum recommended level of 3% of net revenue expenditure during 2019/20. If the reserve is used, it will be replenished to the stated minimum

level as soon as practically possible; the Council will always need a minimum level of emergency reserves.

13. Consequently it is recommended that the General Fund balance be replenished to at least £12.6m, representing 3% of the net budget requirement for 2019/20. The s.151 Officer will, within the remit of his authority to ensure appropriate levels of reserves, determine the most appropriate reserve to be used for this purpose, following a review of the adequacy of reserve balances.
14. To add context to Sheffield's reserve position the graph below shows the reserves of the other core cities as a percentage of their Net Revenue Budget (NRB).



15. Sheffield's overall reserves are in line with the Core City mean average and despite increasing pressures these are still felt to be adequate. Notably, across almost all core cities, unearmarked reserves only make up a small percentage of revenue reserves. Sheffield's unearmarked reserves are the second lowest when compared to Net Revenue Budget.
16. Earmarked reserves are set aside to meet known or predicted future liabilities, such as Business Rates Appeals. These liabilities mean that earmarked reserves are not normally available to fund budget overspends. However we examine these reserves each year to see if any are no longer needed and can be released. The 2019/20 Budget includes a release from earmarked reserves of £11m, following this approach, to support our social care and wider budgets.

<sup>2</sup> Reserves levels as closing balance in relevant 2017/18 Audited Statement of Accounts (or Unaudited, if Audited data not available), net revenue comparator taken from MHCLG Revenue Account 2018/19 data.

17. Earmarked reserves also exist because of the need to smooth the significant payments made on programmes such as the Major Sporting Facilities (MSF) and PFI schemes over the 20 year plus terms of the underlying agreements. In both cases the Council currently has a temporary surplus. However, over time this position will change, and future payments will be higher than our resources, so the reserves will be needed to support their primary purpose.
18. During 2016/17 £65.1m was used temporarily to support the Pension Deficit early payment enabling the delivery of £5m of savings over the period 2017/18 to 2019/20. These funds will be fully repaid by 2019/20. These repayments can be seen in a number of the earmarked reserve movements for 2018/19 and account for over £21.9m of the increase in earmarked reserves.
19. Further details on reserves and their use can be found in **Appendix 4**.

### **Insurance Funds**

20. A review of the Insurance Account has been undertaken to identify the level of fund required. This includes:
  - Known outstanding liabilities.
  - Incurred but not reported liabilities (IBNR)
  - Claims previously paid by Municipal Mutual Insurance (one of the Council's Insurers who went in to a form of receivership in the 1990's)
  - Emerging claims
  - Uninsured asbestos related claims.
21. The Directors of MMI 'triggered' the scheme of arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006). Ernst Young are now responsible for the management of the MMI's business, affairs and assets in accordance with the terms of the Scheme.
22. The Scheme provides that following the occurrence of a Trigger Event, a levy may be imposed on all those scheme creditors which, since the record date, have paid an amount or amounts in respect of established scheme liabilities which, together with the amount of elective defence costs paid by MMI on its behalf, exceeding £50,000 in aggregate. Additionally, payments made after the imposition of a Levy in respect of established scheme creditors will be made at a reduced rate (the payment percentage). Ernst Young have carried out a review of assets and liabilities of MMI and to date a levy of 25% has been paid. The levy will continue to be reviewed at least once every 12 months.

23. The Council currently has a potential claw back of £3.7m with MMI and £629k relating to South Yorkshire Residuary Body (SYRB).
24. The Insurance Account as at 31 March 2019 has £20.2 Million; outstanding liabilities as at 31 March 2019 are £22.7 Million. The Insurance Account is therefore 89% funded as at 31 March 2019. This level of funding is considered adequate.

### **Corporate Risk Register**

25. 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**

26. The approved capital programme budget for 2018/19 at 31 March 2019 was £216.1m. The overall outturn of expenditure against this approved budget was £192.7m. This is £12.7m lower than the Outturn forecast in Month 9.
27. Further monitoring of the Capital Programme is reported in **Appendix 6**.

### **Annual Treasury Management Review**

28. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury review of activities, and the actual prudential and treasury indicators for 2018/19. This review is needed to meet the requirements of the CIPFA Code of Practice on Treasury Management (the code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). During 2018/19 the Full Council received the Annual Treasury Strategy, whilst Cabinet were presented with the Outturn Report. Reports were also taken to the Cabinet Member for Finance during the year.
29. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
30. The Annual Treasury Management Review is attached as **Appendix 7**.

## Implications of this Report

### Financial implications

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

### Equal opportunities implications

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

### Legal implications

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

### Property implications

34. Subject to the description of the Capital Programme within **Appendix 6**, there are no other property implications arising from the recommendations in this report this report.

## Recommendations

35. 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) Note the recommendation of the Executive Director of Resources and Statutory Finance Officer, at paragraph 14 above, that the General Fund reserve is returned to the minimum recommended level of £12.6m (approximately 3% of net revenue expenditure) during 2019/20.
  - (c) In relation to the Capital Programme, note the Outturn position described in **Appendix 6**.
  - (d) In relation to the Treasury Management Review in **Appendix 7**, consider the 2018/19 Treasury Management Outturn Report and ask that it be forwarded to the Full Council, in compliance with CIPFA's Code of Practice on Treasury Management.

## Reasons for Recommendations

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

## Alternative options considered

37. 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 31<sup>ST</sup> MARCH 2019

### People Portfolio

#### Summary

1. As at year end, the Portfolio has a full year outturn overspend of £15.3m on Cash Limit budgets and an overspend of £207k on DSG budgets. This is a decrease of £700k on the cash limit overspend at Month 9 and a decrease of £1.8m on the DSG overspend at Month 9.
2. The key reasons for the outturn position by service on the cash limit budgets are:

#### **Care & Support: Learning Disabilities (overspend of £4.4m):**

- Purchasing LD is showing an overspend of £4.2m. This is principally made up of £1.4m of additional costs in the roll forward of clients, unachieved savings of £2.6m and £277k net growth above 18/19 pressures. This service received £249k additional income for Transforming Care clients from the NHS which was not budgeted and has therefore offset some of this overspend.
- Non-purchasing LD is showing an overspend of £189k. This is made up of an overall overspend across LD In-house Provider Services, mainly short breaks and supported living staffing and an unachieved saving of £103k mitigated by an underspend in Adult Placement Shared Lives.

#### **Care & Support: Long Term Care (LTC) Purchasing (overspend of £5.3m):**

- This is mainly due to increased activity in home care provision owing in part to improved pathway flows from hospital discharges, including reduced Delayed Transfers of Care and reduced length of stay in Short Term Intervention Team (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 has been pursued through active debt chasing.

#### **Care & Support: Commissioning (overspend of £290k)**

- This is mainly due to the purchasing equipment contract risk share agreement with the CCG. Recruitment of specialist staff to triage equipment allocation with the intention of ensuring the right equipment is procured took place in January of 2019. It is expected that this new approach will address some of the overspend issues going forwards into 2019/20.

**Care & Support: Access & Prevention (underspend of £731k)**

- The underspend is predominantly due to additional income of £313k, mainly around an unbudgeted Travel Grant £50k plus budget moved to First Contact from Community Support Workers £115k which is funding from the CCG. There is further recharge income above budget due to the Council capitalising some equipment for adaptations previously purchased through revenue funding. This has been achieved by revising the Housing Assistance Policy and utilising the Disabled Facilities Grant. There is also significant staffing underspend across the service of £360k representing slippage in recruitment and vacancies.

**Care & Support: Safeguarding and Practice Development (underspend of £47k)**

- This is due to legal charges being lower than budget on Safeguarding and a slight overspend on Assessor Fees.

**Community Services (underspend of £70k)**

- Family and Community Learning finished the year with an overspend of £422k wholly due to delayed implementation of an MER saving.
- Locality Management finished the year with an underspend of £133k on Community Support Workers and reduced salary costs due to vacancies.
- Employment and Skills has an underspent budget against Disadvantaged Area Funding £142k due to a delayed project contract agreement and £114k underspend against the 100 Apprentices Scheme due to changes in non-levy paying employers. This led to a decline in numbers enrolled.

**Children & Families (overspend of £6.7m)**

- Placement budgets include a £3.2m overspend mainly due to delay in anticipated savings of £3.1m and the full year impact of the 2017/18 overspend.
- Fieldwork Services finished the year at a £2.4m overspend. This is due to £1.8m overspend on staffing costs, mainly due to increased staffing to deal with increased caseloads and also an overspend of £572k in non-staffing budgets, due to increased transport costs and contact time for children in care, driven by increases in demand for these services.
- Health Strategy finished the year with a £862k overspent due delays in anticipated savings within Short Breaks, respite and Direct Payments.
- There is also a £445k increase in employee costs for Children and Families as a result of the 2018/19 mandatory leave pressure.

**Commissioning Inclusion and Learning Service (overspend of £39k)**

- Commissioned Mental Health Services finished the year with a £263k overspend. This is due to delays in anticipated savings across all three organisations which

form part of the risk share. This position will be reviewed when the three organisations have produced their year-end accounts as the position was fixed at Month 9 outturn. Should any position have materially changed there will be an adjustment made in 2019/20 to reflect that against the risk share.

- Housing Related Support displays a £92k underspend at year end. This is due to reduced staff costs around vacancies and Young People Pilot costs lower than budgeted.
- Early Support and Prevention finished the year with a £116k underspend due to a contract variation in Carers Breaks.
- Inclusion and Learning Service displays £40k underspend on Pupil Admissions due to lower than budgeted legal charges.

### Business Strategy (underspend of £511k)

- The main reasons for the underspend is a combination of a reduction in staffing costs and overachievement of income targets across the service. These have been partially offset by an overspend of £100k for the mandatory leave pressure for the service.

## Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
BUSINESS STRATEGY - PEOPLE	11,440	11,951	(511)	↓
CARE & SUPPORT	118,190	109,001	9,189	↓
CHILDREN & FAMILIES	84,625	77,927	6,698	↑
COMMUNITY SERVICES	9,468	9,538	(70)	↓
COMM'G INCLUSION&LEARNING SERV	26,850	26,811	39	↓
<b>GRAND TOTAL</b>	<b>250,573</b>	<b>235,228</b>	<b>15,345</b>	<b>↓</b>

## DSG

3. The following is a summary of the position on DSG budgets at Month 12:

Portfolio	FY Variance Month 12 £000s	FY Variance Month 9 £000s	Movement £000s
BUSINESS STRATEGY - PEOPLE	(17)	382	(399)
CHILDREN AND FAMILIES	308	280	28
COMM'G INCLUSION&LEARNING SERV	(84)	1,331	(1,415)
COMMUNITY SERVICES	-	-	-
<b>Grand Total</b>	<b>207</b>	<b>1,993</b>	<b>(1,786)</b>

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

**Business Strategy (underspend of £17k)**

- This is due to transport overspends of £434k due to continued increase in demand and increases in costs, offset by underspends of £79k against Business Strategy Operational Budgets, £60k on Portfolio Leadership Team staffing costs and £302k related to lower than expected PFI charges.

**Children and Families (overspend of £308k)**

- Children with Disabilities placements shows an overspend of £378k due to increase demand and costs for these places. There is also an overspend £85k against Children's Residential Homes offset by an underspend in Children's Disabilities Service staffing costs of £114k.

**Commissioning, Inclusion and Learning Services (underspend of £83k)**

- There is a staffing overspend against the SEN Early Years team of £120k and also £69k overspend on Out of City SEN due to increased places and legal costs offset by £66k underspend on Independent Specialist Placements (ISP).
- There is also an underspend against Inclusion of £90k mainly against Locality SEND where lower than expected costs for High Needs children have come through from localities.
- An underspend £101k against Schools and Learning, mainly in the areas of Virtual School, Participation and Children's Commissioning.

**Commentary**

5. The following commentary comments on the main variances at service level from the last reported position at Month 9.

**Care and Support**

- A £9.2m overspend (shown in the table above) relates in total to cash limit. This is a reduction in overspend from the Month 9 reported position of £179k.
- The main reason for the movement in the cash limit outturn position is:
  - Access, Prevention and Reablement - £102k improvement mainly due to the capitalisation of equipment due to the change in the Housing Assistance Policy of £63k, new NHS income of £40k and the remainder is reduced staffing costs of £103k. This has been offset by increased costs against new IT systems that were not included in the budget of £62k.
  - Learning Disabilities shows an improved position of £117k mainly due to removal of duplicated Direct Payment packages of £207k offset by client growth pressures of £105k in excess of assumed growth.

- Long Term Support - £128k worsened position mainly due to increased costs on Care Home costs £141k which is due to one client's costs back dated 2 years.

### **Community Services**

- The service finished the year at a £70k underspend (shown in the table above) relating to cash limit with no movement on the DSG position. This is an improved position of £152k on the Month 9 forecast position.
- The reason for the improvement is reduced spend of £31k against Disadvantaged Area Funding, £36k due to higher apprenticeship income and reduced costs in Family and Community Learning, £62k of small underspends within Library Services and £21k of underspends against staffing in Locality Management.

### **Children and Families**

- This service finished the year with a £6.7m overspend (shown in the first table above) relating to cash limit and a £308k overspend on DSG. This is an increase in the overspend of £132k from Month 9 on the cash limit and an increase of £28k on the DSG overspend from Month 9. This is mainly due to increased costs in Fieldwork staffing.

### **Commissioning, Inclusion and Learning Service**

- A £39k overspend (shown in the table above) relating to cash limit and a £84k underspend on DSG. The £39k overspend shown in the first table for this service is a reduction in the overspend of £268k from Month 9 on cash limit and a reduction of £1.4m on the DSG overspend from Month 9.
- The main reason for the improvement in the cash limit position is within Mental Health Purchasing. The Month 12 position was fixed at the Month 9 outturn for SCC but included an estimated figure for the two health organisations following agreement between all the Directors.
- The main reason for the movement in the DSG position is due to an unexpected early receipt of SEN high needs funding of £1.2m originally anticipated to be received in 19-20.

### **Business Strategy**

- The £511k underspend in the first table above is an improvement of £187k compared to the Month 9 position, and the £17k underspend on DSG in the second table is a £399k improvement.
- The main reason for the increased underspend on cash limit is due to a reduction in expected spend on Travel passes and underspend on staffing costs.

- The main reason for the movement in DSG spend is lower than expected PFI recharges from the Place Portfolio.

## Place Portfolio

### Summary

6. The Place Portfolio outturn at Month 12 was £1.7m under budget, a favourable movement of £628k since Month 9.
7. The key outturn 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 (£5.2m), resulting in a net £1.7m underspend.
8. The favourable movement since Month 9 arose from a number of services actual spend being slightly less than had previously been forecast, in particular a lower level of facility repairs partly as a result of the relatively mild winter.

### Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
BUSINESS STRATEGY & REGULATION	28,360	28,447	(87)	↓
MAJOR PROJECTS	62	106	(44)	↔
CULTURE & ENVIRONMENT	92,244	93,342	(1,098)	↑
HOUSING GENERAL FUND	4,656	4,306	350	↓
CITY GROWTH	29,225	29,386	(161)	↓
TRANSPORT AND FACILITIES MGT	42,037	42,686	(649)	↓
<b>GRAND TOTAL</b>	<b>196,584</b>	<b>198,272</b>	<b>(1,688)</b>	↓

## Resources Portfolio

### Summary

9. At Month 12 the Resources Portfolio Outturn is an underspend of £2.0m. The key reasons for the outturn position are:
  - An underspend of £1.7m on the recharge to the Housing Revenue Account for corporate support services and accommodation following a revision of the bases for the allocation of corporate overheads which are linked to the cost drivers of the services;
  - £468k due to reduced costs of pensions for former employees;

- A net £200k of other savings across the portfolio 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;
- £200k saving in the Human Resources service following negotiations with a contractor which resulted in a one-off price reduction; offset by
- £617k lower arising from contract rebates where the reduced cost of some negotiated contracts has been passed directly to the spending department rather than being received centrally.

## Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
BUSINESS CHANGE & INFORMATION SOLUTIONS	4,212	4,391	(179)	↔
CORPORATE REBATES & DISCOUNTS	(1,181)	(1,798)	617	↔
CUSTOMER SERVICES	6,812	6,774	38	↔
FINANCE & COMMERCIAL SERVICES	6,095	6,416	(321)	↔
HUMAN RESOURCES	5,238	5,291	(53)	↓
LEGAL & GOVERNANCE	4,285	4,309	(24)	↔
RESOURCES MANAGEMENT & PLANNING	182	197	(15)	↔
<b>TOTAL</b>	<b>25,643</b>	<b>25,580</b>	<b>63</b>	<b>↓</b>
CENTRAL COSTS	(23,004)	(20,898)	(2,106)	↓
HOUSING BENEFIT	2,529	2,529	0	↔
<b>GRAND TOTAL</b>	<b>5,168</b>	<b>7,211</b>	<b>(2,043)</b>	<b>↓</b>

## Commentary

10. The outturn position for the Resources Portfolio has improved by £1.8m since Month 9 principally due to the recalculation of central overhead recharges to the HRA mentioned above.

## Policy, Performance and Communications Portfolio

### Summary

11. At Month 12 the Portfolio outturn is an overspend of £84k. This is an improvement of £245k from the reported forecast position at Month 9. The full year variance is predominantly due to reduced income of £261k on the advertising contract following slippage in rolling out new sites. This is partially offset by savings identified by management across the portfolio.

12. There was an improvement of £245k on the Month 9 following better understanding about the expected distribution of advertising income across the organisation.

## Financial Results

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
POLICY, PERFORMANCE & COMMUNICATION	3,364	3,280	84	↓
PUBLIC HEALTH	(135)	(135)	0	↔
<b>GRAND TOTAL</b>	<b>3,229</b>	<b>3,145</b>	<b>84</b>	<b>↓</b>

## Corporate Transactions

### Summary

13. As at Month 12, the Corporate portfolio is showing a £7.1m 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.
14. The key reasons for the position of a £7.1m underspend are:
- Within the Capital Financing budget, £4.0m of improvement due to usage of cash balances rather than incurring borrowing (therefore deferring interest costs in the short term) and the capitalisation of borrowing costs within the Heart of the City II development.
    - It should be noted that this internal borrowing is not a permanent funding source, but is judged a prudent tactic to avoid interest costs in the short term. In coming years, when borrowing becomes necessary to fund capital schemes and manage the Council's overall cash position, these costs avoided in 2018/19 will effectively materialise. The Treasury Management Strategy is described in more detail at **Appendix 7**.
  - £1m released from the corporate redundancy provision as these funds not needed to fund employee reduction schemes, and £2.2m of Levy Account Surplus grant income announced originally at the provisional Local Government Finance Settlement<sup>1</sup> in December 2018 and received in March 2019.

<sup>1</sup> <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020>



15. This position has improved by £2.9m since Month 9. The principal reasons for this are the recognition of the £2.2m grant income described above, and continued improvement relating to avoided borrowing costs in the final quarter of the year.

### Financial Results

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

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
CAPITAL FINANCING	25,469	29,484	(4,015)	↓
CORPORATE ITEMS	(476,384)	(473,340)	(3,044)	↓
<b>GRAND TOTAL</b>	(450,915)	(443,856)	(7,058)	↓

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## PUBLIC HEALTH BUDGET MONITORING AS AT 31<sup>st</sup> MARCH 2019

### Purpose of the Report

1. To report on the 2018/19 Public Health grant spend across the Council for the month ending 31<sup>st</sup> March 2019.
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.

### Summary

4. At Month 12 the overall position was an underspend of £243k which is summarised in the table below.

Portfolio	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s	Movement from Month 9
PEOPLE	28,739	28,685	54	↓
PLACE	2,799	2,942	(143)	↔
DIRECTOR OF PH	1,817	1,971	(154)	↓
<b>GRAND TOTAL</b>	33,355	33,598	(243)	↓

5. The key reasons for the forecast positions spend are:
  - A £54k overspend in People due to £131k overspend in Children’s Public Health within sexual health demand-led services and an overall overspend within Drug and Alcohol Action Coordination Teams (DACT) services of £309k. This is offset by savings against residential rehabilitation of £152k, DACT vacancy and non-pay savings of £81k, underspends against contracts within Mental Health Partnership & Grant Aid of £69k, vacancy savings in the MAST service of £32k, a saving following a review of Housing Related Support commitments of £33k and other, smaller underspends across the Portfolio.
  - A £143k underspend in Place due to employee savings on Public Health Infrastructure of £98k, and an underspend against Children & Families Weight Management Contract.

- A £154k underspend in Director of Public Health mainly as a result of reduced GP Health Checks, plus an over-recovery of income on Public Health Intelligence and Oral Health.
6. There are only minimal movements since the position reported at Month 9. 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 Drug and Alcohol demand-led services.
  - The movement in Place is largely as a result reduced underspends on salaries on Smokefree Environments payments to health relating to projects that have not yet been agreed.
  - The movement in Director of Public Health is mainly due to reduced GP Health Check contract costs.

## HOUSING REVENUE ACCOUNT BUDGET MONITORING AS AT 31<sup>ST</sup> MARCH 2019

### Purpose of this Report

1. To provide a summary report on the HRA 2018/19 revenue budget for the month ending 31<sup>st</sup> March 2019, and agree any actions necessary.

### Summary

2. The HRA Business Plan is based on the principle of ensuring that investment and services required for council housing is met by income raised in the HRA.
3. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme. As at Month 12 the full year overall outturn position is a small adverse movement £81k from the budgeted position. As such the funding contribution to capital investment programme will be revised to take this into account.
4. This is in line with the HRA Business Plan which sets out the Council's plans and priorities for investment in Council housing over the next five years. Capital investment continues to be made on improving Council housing with the focus on new roofs, improvement to communal areas as well as building new council housing.
5. The main areas affecting the outturn position include lower than budgeted rental income of £369k and an overall net increase in increased repairs and running costs £606k which have been offset by a reduction of £844k on loan interest payments due to revised borrowing assumptions.

### Financial Results

Housing Revenue Account (excluding Community Heating)	FY Outturn Month 12 £000s	FY Budget Month 12 £000s	FY Variance Month 12 £000s
1.NET INCOME DWELLINGS	(141,338)	(141,707)	369
2.OTHER INCOME	(6,344)	(6,295)	(49)
3.TENANT SERVICES incl REPAIRS & MAINTENANCE	86,572	85,966	606
4.DEPRECIATION	23,310	23,310	(0)
5.INTEREST ON BORROWING	14,317	15,161	(844)
6.CONTRIBUTION TO CAPITAL PROGRAMME	23,483	23,564	(81)
<b>Total</b>	-	-	-

## Community Heating

6. The budgeted position for Community Heating is a draw down from Community Heating reserves of £419k. As at month 12 the position is a draw down from reserves of £433k, an unfavourable movement of £14k.

Community Heating	FY Outturn Month 12 £000s	FY Budget Month 12 £000s	FY Variance Month 12 £000s
Income	(2,161)	(2,471)	310
Expenditure	2,594	2,890	(296)
<b>Total</b>	<b>433</b>	<b>419</b>	<b>14</b>

Description	Balance at 31/03/18 £000	Movement in 2018/19 £000	Balance at 31/03/19 £000	Movement in 2019/20 £000	Balance at 31/03/20 £000	Explanation
<b>Non-earmarked Reserves</b>						
General Fund Reserve	10,631	(2,508)	8,123	4,490	12,613	The Council's working balance: used as a last resort for emergency spend. The balance as at 31st March 2019 at just 2.0% of net spending, benchmarks low compared to most Local Authorities. This reserve is to be topped up to £12.6m as an agreed minimum.
	<b>10,631</b>	<b>(2,508)</b>	<b>8,123</b>	<b>4,490</b>	<b>12,613</b>	
PFI Reserve	(988)	34,665	33,678	(1,704)	31,974	The PFI reserve exists due to Government funding being received in advance to pay future years' liabilities. This income is set aside in a reserve until needed to ensure sufficient funds are available to cover the cost of contracts in future years. During 2016/17 these reserves were used temporarily to fund the Pension Deficit early payment. These funds have been repaid during 2018/19.
Highways PFI Reserve	13,624	(5,622)	8,002	(3,672)	4,329	
<b>Total PFI Reserve</b>	<b>12,636</b>	<b>29,043</b>	<b>41,679</b>	<b>(5,376)</b>	<b>36,304</b>	
<b>Invest to Save</b>	<b>2,892</b>	<b>2,462</b>	<b>5,354</b>	<b>1,610</b>	<b>6,964</b>	Used to fund transformation projects aimed at delivering long term revenue savings.
<b>Major Sporting Facilities</b>	<b>29,869</b>	<b>(5,710)</b>	<b>24,159</b>	<b>(5,147)</b>	<b>19,012</b>	The Major Sporting Facilities (MSF) reserve exists because of the need to smooth the future significant payments due to Sheffield City Trust (re: Ponds Forge, the Arena, Don Valley Stadium and Hillsborough Leisure Centre).
<b>New Homes Bonus</b>	<b>6,749</b>	<b>5,000</b>	<b>11,749</b>	<b>0</b>	<b>11,749</b>	This reserve is earmarked to support economic development across the City.
<b>Insurance Fund Reserve</b>	<b>11,212</b>	<b>(1,038)</b>	<b>10,174</b>	<b>(610)</b>	<b>9,564</b>	This reserve is set aside to cover potential insurance claims made against the Council.
<b>Public Health</b>	<b>1,423</b>	<b>(271)</b>	<b>1,152</b>	<b>(345)</b>	<b>807</b>	During 2013/14 the Dept of Health allocated Public Health Grant to enable local authorities (LA) to discharge their new public health responsibilities. Grant conditions for this funding requires the LA to transfer any unspent funds to reserves for use in future years.
<b>Service Area Reserves</b>	<b>10,823</b>	<b>3,307</b>	<b>14,129</b>	<b>0</b>	<b>14,129</b>	These are a variety of service specific reserves agreed by Cabinet in previous years set aside for long-term projects / plans, examples include the Workplace Accommodation Strategy and the Flexible Development Fund
<b>Children's and Adult Social Care</b>	<b>15,998</b>	<b>2,866</b>	<b>18,864</b>	<b>(18,864)</b>	<b>0</b>	Social Care reserves are held to deal with transforming Social Care in Sheffield to better meet the much publicised challenges facing the sector and to deal with unforeseen costs.
<b>Business Rates Appeals</b>	<b>19,105</b>	<b>471</b>	<b>19,576</b>	<b>19</b>	<b>19,595</b>	This reserve is required to cover potential reductions in Business Rate income following future successful appeals.
<b>Other earmarked</b>	<b>50,191</b>	<b>3,101</b>	<b>53,292</b>	<b>21,900</b>	<b>75,192</b>	Other Earmarked reserves include funds which are set aside to cover predicted liabilities such as redundancies, equal pay claims and the costs of the ICT 2020 project. During 2016/17 £48m of these reserves were used temporarily to fund the Pension Deficit early payment. These funds will be fully repaid during 2017/18 to 2019/20 ensuring that the funds are available when needed for their primary purpose.
<b>Total Earmarked Reserves</b>	<b>160,897</b>	<b>39,231</b>	<b>200,129</b>	<b>(6,813)</b>	<b>193,316</b>	
<b>Total Revenue Reserves</b>	<b>171,528</b>	<b>36,723</b>	<b>208,252</b>	<b>(2,323)</b>	<b>205,929</b>	

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## **CORPORATE RISK REGISTER**

### **AS AT 31st MARCH 2019**

1. This Appendix provides a brief overview of the main financial risks facing the Council in 2019/20 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**

#### **Capital financing costs**

2. 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 – albeit the UK has been granted an extension to the 31<sup>st</sup> October 2019. 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**

3. 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.
4. 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 March 2019, there were still over 400 properties relating to the 2010 valuation list with a rateable value of approximately £70m under appeal in Sheffield.
5. Not all of the £70m 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 appropriate to mitigate the loss of income as a result of successful appeals.
6. Of the over 400 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 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.

7. As part of the Business Rates Retention Scheme, there is a built-in revaluation process every five years to ensure the rateable values of the properties remain accurate. This process 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.
8. 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.
9. 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.
10. 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.
11. 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.
12. 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**

13. 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.

14. The report on the MTFA indicated that there would be ongoing reductions in Revenue Support Grant (RSG) as outlined in the December 2015 Autumn Statement, which covers the period to 2020/21. The reductions in RSG are now expected to exceed £84m including 2019/20.

### **Implementation of savings proposals**

15. The MTFS described a net revenue funding gap of £39.5m by 2022/23. This position assumes the delivery of £72m 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 £39.5m gap. The risk is that non-delivery of budgeted savings will create a threat to the medium term financial sustainability of the Council.
16. 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**

17. External bodies whose pension liability is underwritten by the Council are likely to find the cost of the scheme a significant burden in the current economic context. If they become insolvent the resulting liability may involve significant cost to the Council.
18. The greatest risks to the Council are those schemes at risk of their pension fund closing in a deficit position. The deficit when the fund crystallises is based upon a 'least risk basis' calculation by the actuary, which results in a significantly higher deficit than if calculated on an ongoing basis. The Triennial Review which covers 2017-20 highlights the total liabilities being underwritten by the Council for external bodies is £10.4m. This figure is on an ongoing, rather than least risk, basis. In the worst case, if these funds were to crystallise, the potential liability could be much higher.

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

### **Economic Climate**

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

### **External Funding**

22. The Council utilises many different grant regimes, for example central government, Sheffield City Region and EU. Delivering projects that are grant funded involves an element of risk of grant claw back where agreed terms and conditions are not stringently adhered to and evidenced by portfolios. In order to minimise risk strong project management skills and sound financial controls are required by Project Managers along with adherence to the Leader's Scheme of Delegation to approve external funding bids.
23. As SCC funding reduces, portfolios are increasingly seeking out new sources of external funding, both capital and revenue. EU funding contracts have more complex conditions, require greater evidence to substantiate expenditure claims and are less flexible on timescales and output delivery targets. This increases the inherent risk in projects which are EU funded. Furthermore as the Council reduces its staff resources a combination of fewer staff and less experienced staff increases the risk of non-compliance with the funding contract conditions and exposes the authority to potential financial claw back.
24. Moreover, the pressure on the General Fund means that Service Managers are forced to seek more external funding such that the general level of risk associated with grants is increasing because of the additional workload this creates amongst reduced and potentially inexperienced staff.
25. The result of the referendum on EU membership does not in the short term change the risk profile of EU grants.

### **Taxation**

26. 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.

27. 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.
28. 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.
29. 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**

30. 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 continues to diminish 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 a substantial proportion of surplus cash in AAA-rated, highly diversified and liquid funds and the remainder with counterparties with investment grade ratings.
31. As part of the 2019/20 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 proposed 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 2019/20 to ensure we have the ability to respond appropriately to market volatility.

32. 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.
33. The Council has obtained 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 will continue to improve systems and control measures to ensure on-going compliance with PCI DSS requirements and to reflect the changing nature of the Council's card data environment.
34. A key supplier of card payment services [Santander] have indicated that they will withdraw from the market with effect from 31st May 2019. We have taken action to provide alternative payment facilities and this work is complete. Activity on the Santander service is declining and we no longer expect any significant disruption of internet payments
35. 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 awarded 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**

36. 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.
37. 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.

38. 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.
39. 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. 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.
40. 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**

41. 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. In 2019/20 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.
42. 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 for 2019/20 and remains a risk for any future conversions, especially with the expansion of the academy conversion programme.
43. 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**

44. There continue to be an increase in demand and costs for services for children social care both in terms of placement costs, fieldwork costs and support costs.

45. There are a number of ongoing transformational projects 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**

46. In 2019/20 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.
47. 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.
48. For 2019/20 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.
49. 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.
50. For 2019/20 there is a risk that providers will seek to increase their fees, given the current level of over spend on the ASC budgets this will cause increased pressure.

### **Place Portfolio**

#### **Revenue Budget savings**

51. The Place budget comprises four significant contracts - Streets Ahead programme, Waste Management, the South Yorkshire Passenger Transport Levy and the Private Finance Initiative costs of some buildings – which together absorb the major part of the portfolio's 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 the first three of these contracts to preserve the other services. The PFI cost is fixed and cannot be reduced without buying out the provider.

52. The South Yorkshire Transport Levy and Waste Management contracts have been successfully reduced. Officers continue to review the opportunities to realise further benefits from the Streets Ahead contract..
53. The Portfolio has also developed further strategic interventions planned over the next four years including reducing the level of support to Sports Trusts, and has embarked on the Place Change Programme to review all the other services seeking a business-like approach to service delivery to maximise efficient and effective delivery whilst understanding the full cost of operational decisions. This knowledge can then be used to set fees and charges to recover the full cost of the service. 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 proving to be challenging and is being carefully monitored.
54. The portfolio's future financial strategy is to reduce its dependence on General Fund support by replacing it with funding from third parties or fees and charges. Raising additional income will be dependent on the performance of the overall economy and the competitive position of the services in the market place.
55. The Portfolio undertakes a number of complex, high profile capital projects which require strong cost control from the sponsor and project manager. Experience in 2017/18 has shown that this discipline is not present in all projects and has exposed the portfolio on occasions to find funding from the Revenue Budget to fund overspends. Furthermore, the Council has agreed a number of contingent liabilities relating to developments within the city centre. If these were to crystallise there would be an immediate Revenue and Capital Budget impact

### **Housing Revenue Account Risks**

56. 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

57. 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

58. 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 Corporate Investment Fund. Any reduction in these funding streams will limit the Council's investment capacity.

### Olympic Legacy Park

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

### Heart Of the City 2 (formerly Sheffield Retail Quarter)

60. 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.
61. 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. This building is now complete and the letting activity is in progress to secure tenants for retail and F&B units.

62. The route for delivery of the remainder of the Heart of the City II 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.
63. The remainder of the £27m budget is now allocated across the development blocks to complete its own pre-construction phase. On completion of that phase further funding will be sought through the capital approval process to develop the properties.
64. 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.
65. Approval is now also being sought for the next block, H and this block is being sub divided to deliver a separate Office building as a result of securing a pre-let to a blue chip occupier.
66. 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.
67. 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.
68. 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

69. 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 required the Council to commit funds ahead of receipt from central government. The actual funding gap between expenditure incurred and funds received at 2018/19 year end was £13.5m. Future confirmed allocations of funding total £13.1m, with a further £8.4m expenditure committed. Therefore, the current amount at risk (i.e. expenditure committed without confirmed funding allocation) is £8.8m.
70. An announcement is expected in 2019/20 of the grant allocation for 2021/22. If the amount granted is less than £8.8m, this will require a further application of council resources in lieu of further funding.
71. Initial estimates by the School Organisation Team indicated the 21/22 allowance could be up to £11m. However, changing government methodologies over the calculation of the grant mean this cannot be relied upon. This therefore remains a risk to the Council. That said, robust monthly monitoring of the Schools Places Expansion Programme has ensured that the level of potential risk has been quantified and work on the accounting treatment has significantly reduced the potential draw on corporate resources.
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.

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# CAPITAL OUTTURN REPORT 2018/19



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# 1 INTRODUCTION

## A succinct summary of the report content and conclusions

### 1.1 Purpose of report

Capital spending pays for buildings, roads and council housing and for major repairs to them. It does not pay for the day-to-day running costs of council services. We strive to use our capital monies to make the biggest possible positive impacts upon Sheffield people's lives.

Our capital spending falls under nine priority areas:

- Economic growth
- Housing investment
- People: capital and growth
- Transport
- Quality of life
- Heart of the City II
- Housing growth
- Green and open spaces
- Essential compliance and maintenance

Further details on each of these priorities are contained in our Capital Strategy.

In March 2018, Cabinet approved a capital programme budget for the financial year 2018/19. This Outturn Report sets out how we delivered against the 2018/19 approved budget.

The purpose of this report is to set out:

- levels of actual spend that occurred throughout 2018/19 (sections 2 and 3)
- key projects which underspent and the reasons for this (section 4)
- key projects which overspent and the reasons for this (section 5)
- levels of slippage and the reasons for this (section 6)
- how the capital programme is funded and how these resources have been spent (section 7)
- actions we are taking to improve our performance (section 8).

A Glossary is included at section 9 to promote a clear, shared understanding of financial and project terminology.

## 1.2 Headline conclusions

The Council continues to improve its delivery of capital schemes. Effective governance minimises the risk of overspends.

Whilst there continues to be slippage on the capital programme, we now understand the distinction between delivery slippage and re-profiling (as set out at section 6). This has helped to highlight where variations against budget are the result of strategic decisions rather than failure of delivery. Use of this analysis will continue alongside our continued monitoring and critical challenge of unrealistic budget profiles in order to deliver a robust capital budget with minimal variances.

The Council will make ongoing improvements to its processes and governance to reduce slippage in the capital programme in order to maximise the timely delivery of benefits to Sheffield citizens.

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**Damian Watkinson**  
**Finance Manager, Commercial Business Development**  
**Finance and Commercial Services**  
**May 2019**

## 2 KEY FACTS

### Key high-level budget and expenditure information

#### 2.1 Budget and expenditure headlines

Approved capital programme budget for 2018/19 as at 31 March 2018 (Month 1)	£242.5m
Approved capital programme budget for 2018/19 as at 31 December 2018 (Month 9) – the latest report to Cabinet	£240m
Approved capital programme budget for 2018/19 at 31 March 2019 (Month 12)	£216.1m
Actual expenditure against the revised budget of £216.1m	£192.7m

#### 2.2 Reasons for budget changes between Month 9 and Month 12

These approved capital budgets were reduced by £23.9m between the end of December 2018 and March 2019. The key figures are set out in the table below:

	2018/19 (£m)	2019/20 (£m)	Future (£m)	Total (£m)
Month 9 approved budget	240.0	143.8	335.3	719.1
Additions	2.5	9.9	71.5	83.8
Variations	7.8	3.8	0.0	11.6
Reprofile	-15.2	-5.9	21.1	0.0
Slippage and acceleration	-19.0	1.0	18.0	0.0
Month 12 approved budget	216.1	152.6	445.8	814.5



The reasons for the 2018/19 in-year budget changes between Month 9 and Month 12 fall under four key categories:

Reprofiling		Slippage		Additions		Variations	
Housing Capital Programme (Housing investment)	-£14m	New build Council housing (Housing growth)	-£5m	Communal areas budget (Housing investment)	+£2m	Annualised capital interest - Heart of the City II	+£5.5m
Astrea Academy fixtures (People: Capital & growth)	-£1m	Housing investment	-£5m			Distribution of grants to schools	+£1.5m
		Corporate essential replacements programme (Essential compliance)	-£1.7m				
		Heart of the City II	-£3m				
		Transport programme	-£1.1m				
<b>TOTAL: -£15m</b>		<b>TOTAL: -£15.8m</b>		<b>TOTAL: +£2m</b>		<b>TOTAL: +£7m</b>	

# 3 PERFORMANCE BY PRIORITY AREA

## A summary of expenditure against budget at Month 12

### 3.1 Year-end net slippage figures

The overall outturn of expenditure against the approved budget of £216.1m budget was £192.7m. The table below summarises the outturn expenditure by Priority Area, categorising variances against budget.

Year-end net slippage - the aggregate of Slippage and Accelerated Spend - totalled £14.2m. This represents 7% of the approved Month 12 budget.

Portfolio	Approved Expenditure Budget	Expenditure 31/03/19 (Qtier)	Variance	Accelerated						Percentage Year End Net Slippage
				Slippage	Reprofile	Spend	Overspend	UnderSpend	Internal Adjusment	
ECONOMIC GROWTH	11,806,014	10,597,232	1,208,781	1,831,279	-	(140,432)	(475,680)	42,499	(48,885)	14%
ESSENTIAL COMPLIANCE & MAINT	4,963,240	4,045,790	917,450	1,094,434	222,065	(446,047)	(643)	47,642	(0)	13%
GREEN & OPEN SPACES	1,287,647	1,191,655	95,992	87,653	-	(287)	(6,590)	15,216	-	7%
HEART OF THE CITY II	48,949,818	48,158,858	790,960	3,145,908	-	(2,135,819)	(219,128)	-	-	2%
HOUSING GROWTH	18,357,225	11,006,485	7,350,740	917,985	7,926,733	(1,495,071)	(4)	1,097	-	-3%
HOUSING INVESTMENT	53,022,606	48,500,271	4,522,335	4,973,503	-	(1,138,094)	(115,694)	802,620	-	7%
PEOPLE CAPITAL & GROWTH	48,752,708	44,482,635	4,270,073	4,583,636	314,477	(558,473)	(180,521)	110,953	0	8%
QUALITY OF LIFE	20,948,372	20,025,543	922,829	688,953	-	-	(867)	234,743	(0)	3%
TRANSPORT	7,994,214	4,711,039	3,283,175	2,687,573	-	(7,945)	32,202	571,345	-	34%
<b>GRAND TOTAL</b>	<b>216,081,844</b>	<b>192,719,507</b>	<b>23,362,337</b>	<b>20,010,924</b>	<b>8,463,275</b>	<b>(5,922,167)</b>	<b>(966,925)</b>	<b>1,826,115</b>	<b>(48,885)</b>	<b>7%</b>

### 3.2 Year-end net slippage explanation

The highest levels of year-end net slippage can be found on the Economic growth (14%), Essential compliance and maintenance (13%) and Transport (34%) priorities. Taking each of these in turn:

### **Economic growth**

- delays to the Knowledge Gateway scheme (£800k) caused by reprofiling due to issues found on site
- slippage to the end of the Lower Don Valley Flood Defence scheme (£300k) linked to the failure of Carillion

### **Essential compliance and maintenance**

- delay in commissioning works due to changing priorities on the Structural Works Programme (£300k)

### **Transport**

- delay to the Clean Bus Technology scheme caused by supply chain issues suffered by First and Stagecoach in obtaining retrofit engines (£1.5m)

## **3.3 Impact upon the Council's resources**

The vast majority of overspends were funded from External Grants or contributions. These therefore did not require additional support from SCC resources.

However, this was also the case in relation to the underspends (savings) achieved.

There has therefore been no overall benefit to discretionary capital funds.

# 4 SPEND BELOW BUDGET

## A summary of the top ten projects which spent below budget

The table below sets out the ten projects with the highest spend below the approved budget, together with categorisation of the variance and the reason for it. The ten projects represent over half the slippage of the entire capital programme.

Scheme Title	Priority	Approved Expenditure Budget	Integra Expenditure 31/03/19 (Qtier)	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpend	Internal Adjustment	Comments
DEVONSHIRE QUARTER	HOUSING GROWTH	4,463,000	-	4,463,000	-	4,463,000	-	-	-	-	Entering into an exclusivity agreement on one of the sites and have agreed the acquisition of another with contract exchange expected in May 2019 with a deferred completion in 2020 due to the vendor incurring clawback if completed before then. The budget therefore needs to be slipped to cover these costs.
ASTREA ACADEMY	PEOPLE	21,919,491	17,737,585	4,181,906	4,181,906	-	-	-	-	-	Slippage on scheme due delays early in programme re: ground conditions and statutory providers. However, sufficient progress was made to allow all students to attend by the start of the school year
BROWNFIELD SITE	HOUSING GROWTH	6,220,085	2,756,352	3,463,733	-	3,463,733	-	-	-	-	Nursery Street freehold reversion and Manton Street acquisition achieved in 18/19. The list of sites is currently being reviewed and it is proposed to substitute further sites in 19/20 as some of the original sites are not currently available, or in some cases SCC will dispose of the freehold reversion to facilitate development by the market. This budget was originally set up to allow flexibility and sites to be substituted to enable SCC to intervene where necessary to bring forward development, so needs to be kept intact.
CLEAN BUS TECHNOLOGY	TRANSPORT	1,946,800	474,375	1,472,426	1,472,426	-	-	-	-	-	Slippage required • First had a few supply problems with the retrofitting equipment so their programme slipped by a couple of months. The grant funder is aware of this and has agreed to this slippage. • Stagecoach had a major problem when the supplier of the retrofit equipment lost their accreditation and then went into liquidation. They engaged a new accredited supplier but their programme slipped by three months. The grant funder is aware of this and has agreed to the slippage.
GARAGE STRATEGY-IMPROVEMENT	HOUSING INVESTMENT	1,835,759	418,100	1,417,659	1,417,659	-	-	-	-	-	Underspend due to late issue of work to contractors. Garage Strategy has been under review but the remaining budget will be needed.
PITCHED ROOFING & ROOFLINE	HOUSING INVESTMENT	12,000,000	10,732,516	1,267,484	1,267,484	-	-	-	-	-	59 properties outstanding at the end of 18/19. Kier have reviewed the outstanding work and provided a programme to complete the remaining properties by June 19
HEART OF THE CITY II ACQUISITIONS	HEART OF THE CITY	5,412,182	4,148,017	1,264,165	1,264,165	-	-	-	-	-	Budget allowance for contingency for risks on wider project which haven't materialised and later than expected settlement on CPO acquisitions
PORTOBELLO CYCLE ROUTE	HEART OF THE CITY	917,730	97,243	820,487	917,730	-	-	(97,243)	-	-	University of Sheffield developments around Portobello currently do not align with the delivery dates originally proposed for the Portobello cycle scheme, therefore SCC has reviewed and amend the original programme to accommodate these works and prevent abortive costs and disruption to the public. Additional costs funded from Local Transport Plan
KNOWLEDGE GATEWAY	ECONOMIC GROWTH	4,661,202	3,843,940	817,261	817,261	-	-	-	-	-	Slippage due to a reprogramme of works and expenditure due to unforeseen delays around the demolition works
COMMUNAL AREAS-LOW RISE FLATS	HOUSING INVESTMENT	5,695,194	5,053,356	641,838	641,838	-	-	-	-	-	The variance is due to the portion of the budget allocated to Going Local projects not being spent. Approval has been given for a number of other projects so the remaining budget needs to be slipped to cover these, and retention payments for the communal contracts
<b>Total</b>		<b>65,071,443</b>	<b>45,261,485</b>	<b>19,809,958</b>	<b>11,980,469</b>	<b>7,926,733</b>	<b>-</b>	<b>(97,243)</b>	<b>-</b>	<b>-</b>	

# 5 SPEND ABOVE BUDGET

## A summary of the top ten projects which spent above budget

The table below sets out the ten projects with the highest spend above the approved budget, together with categorisation of the variance and the reason for it.

Scheme Title	Priority	Approved Expenditure Budget	Integra Expenditure 31/03/19 (Qtier)	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpenc	Internal Adjustment	Comments
H HENRYS BLOCK	HEART OF THE CITY	252,082	1,458,885	(1,206,804)	-	-	(1,206,804)	-	-	-	Acquisition of property interests settled earlier than anticipated in budget
COUNCIL HSG ACQUISITIONS PROG	HOUSING GROWTH	4,264,835	5,178,275	(913,440)	-	-	(913,440)	-	-	-	General Council Housing acquisitions reached 68, 9 more than planned
ELECTRICAL STRATEGY	HOUSING INVESTMENT	7,314,474	7,856,290	(541,816)	-	-	(541,816)	-	-	-	Acceleration due to the agreed escalated programme being achieved by contractor , therefore reduce the 19/20 budget
ON SITE ACQUISITIONS	HOUSING GROWTH	483,200	1,007,228	(524,028)	-	-	(524,028)	-	-	-	Due to acceleration on the construction and handover of the first tranche of properties the second payment to the developer needed to be paid in advance of receiving these properties. The second payment had been budgeted in 19/20.
OLP FA PITCH	ECONOMIC GROWTH	-	387,799	(387,799)	-	-	-	(387,799)	-	-	Additional scheme costs funded by contribution from UTC
HEART OF THE CITY II OFFICES	HEART OF THE CITY	35,676,278	36,010,646	(334,368)	-	-	(334,368)	-	-	-	Costs incurred for tenant requested changes which will be recovered from HSBC in 19/20
A PALATINE CHAMBERS BLOCK	HEART OF THE CITY	232,888	505,884	(272,996)	-	-	(272,996)	-	-	-	Acquisition of properties settled earlier than anticipated .
EWI NON-TRADITIONAL1	HOUSING INVESTMENT	500,000	732,250	(232,250)	-	-	(232,250)	-	-	-	Variance is due to the contractors escalating the programme and making good progress on site, therefore reduce the 19/20 budget
HOCII - STRATEGIC DEV PARTNER	HEART OF THE CITY	713,731	938,976	(225,245)	-	-	(225,245)	-	-	-	Higher than anticipated costs for cost management, data management and internal fees. Will be covered in part from additional budget released with later blocks but needs reviewing against overall appraisal allowances and potential funding from contingency
KITCHEN/BATHRM PLANNED REPLMT	HOUSING INVESTMENT	8,043,366	8,208,488	(165,122)	-	-	(165,122)	-	-	-	A significant number of vacant properties have been added into the programme. There will be a CAF in May19 to bring forward additional budget to cover the scope of the additional work.
<b>Total</b>		<b>57,480,853</b>	<b>62,284,722</b>	<b>(4,803,869)</b>	<b>-</b>	<b>-</b>	<b>(4,416,070)</b>	<b>(387,799)</b>	<b>-</b>	<b>-</b>	

## 6 SLIPPAGE

### A statement of slippage levels for 2018/19 and comparison against previous years

#### 6.1 Why is slippage important?

Slippage impacts not only our financial position, but also the services we provide:

- **Financial planning** – inaccurate profiling makes it difficult for us to plan new investments and determine our borrowing requirements.
- **Revenue budget** – whilst slippage can have a positive effect through reducing our borrowing costs, it can also increase our costs when capital investment should result in reduced revenue running costs which are then delayed. There is also the risk that interests rates could rise in the intervening period, increasing our borrowing costs.
- **Construction inflation** – project delay can lead to increased tender costs as time progresses in a growing market.
- **Ancillary costs and consequential works** – delays to, for example, new school buildings can result in temporary accommodation being required at additional cost and disruption. Delays to planned maintenance can cause additional costs for short-term revenue repairs and increase the cost of the capital replacement in the longer term due to asset deterioration and the urgency of the repair.
- **Reputational damage** – if projects are not delivered as publicised, this can cause both internal and external damage to the Council's reputation.

Reducing the levels of slippage in the capital programme is a key priority for the Council. Spend on delivery demonstrates that projects are being delivered on the ground for the benefit of our citizens.

#### 6.2 What causes slippage?

It's important that we understand why slippage is occurring so we can address it and report on it in a clear and timely manner. Key reasons for slippage include:

- **Delays in planning consent** – this can be lengthy and must follow due process.
- **Timing of third party funding contributions** – slippage can occur when a project is entered onto the capital programme and funding is then delayed.
- **Tender returns and value engineering** – if tender returns exceed budget, this can require a lengthy period of redesign, costing and validation in order to bring a scheme back within budget.

- **Access issues** – if a delivery window is missed (such as school holidays), this can result in significant slippage until the next available window.
- **Final accounts and snagging** – where these are not resolved in a timely manner, we may need to retain monies for final payments and resolution of defects.
- **Project planning** – optimism bias, and the fact that funding may need to be made available if risks (such as planning consent) do not materialise, can lead to delivery slippage. Furthermore, we have historically added projects to the capital programme at feasibility stage. This can lead to delays when feasibility throws up issues which delay delivery. Project managers are also focussed on obtaining the total funds for their projects, rather than accurately forecasting the profile of their spend.

The actions we are taking to address these are set out at section 8.

### 6.3 Historical position

Reducing the levels of slippage in the capital programme is a key priority for the Council. Spend on delivery demonstrates that projects are being delivered on the ground for the benefit of our citizens.

In recent years, total slippage (which includes year-end slippage plus in-year slippage) has been on a downward trend. From a high point of 43% in 2012/13, slippage levels tumbled to 24% in 2017/18. This is largely as a result of the introduction of the 'Gateway Process', which introduced greater rigour and accountability to project governance.

### 6.4 Current position

In 2017/18, action was taken to confirm the definitions of 'slippage' and 're-profiling' and draw a clear distinction between the two in order to aid transparency and clarity.

'Slippage' relates to spend below budget, which reflects a scheme in delivery falling behind programme. Stakeholders need to understand the reasons for this and take remedial actions to try and bring the project back on track.

'Re-profiling' is the re-allocation of budget between years for projects which are not yet in delivery. Budget allocations are being moved which could be due to a number of reasons. For example, further feasibility work could be required to be undertaken, or further funding sought. Or we could minimise risk to Council taxpayers by splitting a project into a series of projects in order to spread delivery risk.

We have therefore adopted this revised definition of slippage for 2018/19, and will continue to calculate on this basis for future years to enable a robust comparison with previous years to be undertaken.

The table below summarises the breakdown between slippage and re-profiling, including (a) that authorised in-year as part of the regular approvals process, and (b) that occurring at year-end as part of overall planned expenditure.

Maximum Authorised Expenditure In year	Expenditure Delivered	In Year Slippage (£m)	Year End Net Slippage (£m)	Total Slippage (£m)	Slippage as %age of budget
276.7	192.7	18.4	14.1	32.5	12%
		In Year Reprofile (£m)	Year End Net Reprofile (£m)	Total Reprofile (£m)	Reprofile as %age of budget
		43.0	8.5	51.5	19%

This is the first year that slippage has been calculated in this way. The figure of 12% will therefore form the benchmark going forward.

The major contributory factors to the **Year End Net Slippage** figure are set out at sections 4 and 5 above.

Key elements of the **In-Year Slippage** were due to New Build Council Housing (£5m), Investment into existing Council Housing Stock (£5m) and Sheffield Retail Quarter Offices (£2.3m)

The major contributory factors to the **Net Re-profile** figure are set out at section 4 above.

Key elements of the **In-Year Re-profile** amount were the strategic decision to deliver the Heart of The City II Programme in phases, rather than a single “big bang” development (£24m), the remainder of re-profiled expenditure related largely to the Council Housing Investment Programme as part of its annual review and recalibration of its 5-year programme.

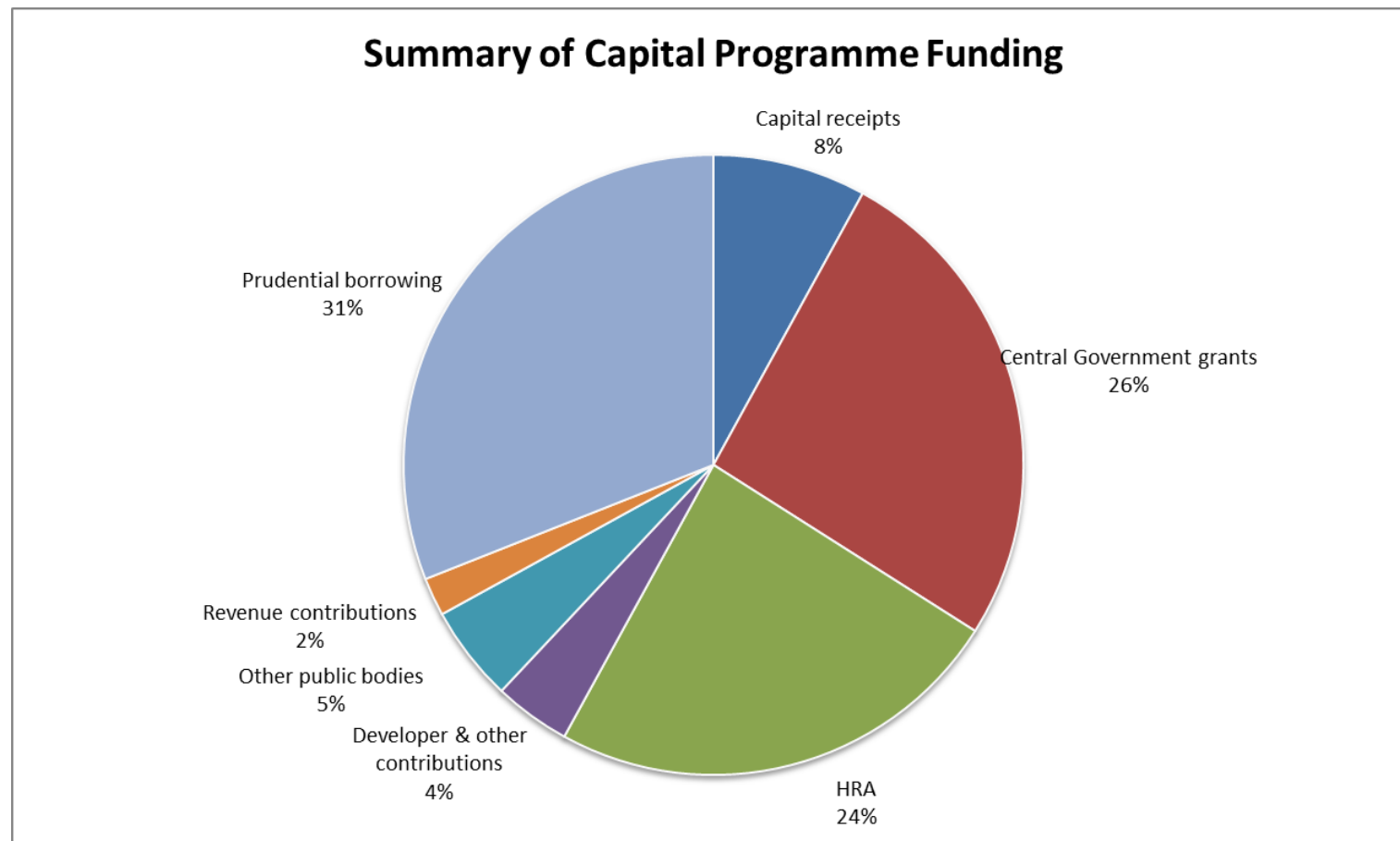


# 7 FUNDING AND RESOURCES

How the capital programme is funded; key risks to note

## 7.1 Breakdown of capital funding

Capital expenditure in 2018/19 totalled £192.7m. The breakdown of funding sources is shown in the pie-chart below:



Taking each of the key funding streams in turn:

### **A Prudential borrowing**

The £60m of Prudential Borrowing makes up approximately 1/3 of the capital programme. This funds:

- Heart of The City II scheme (£45m). Future revenues and capital receipts from developed sites are expected to offset future principal and revenue costs.
- Major Sporting Facilities (£13m) financing arrangements.
- Household waste disposal improvements (£2m) – these will generate revenue savings to offset the borrowing costs.

### **B Capital receipts**

Expenditure funded by capital receipts (£15.6m) has been directed mainly to investments in existing council housing stock (£5.9m), investment in Housing Growth (£5m) and investment in the corporate estate (£3.9m).

### **C Central government grants**

The majority of the £36.7m funded by Central Government Grants relates to grants from the Department for Education for the creation of new school places and maintenance of schools' infrastructure (£24.9m).

However, it should be noted that of this £24.9m, £13m represents the application in advance of receipt of School Places Basic need Funding for 2019/20 and 2020/21 (see section 7.2 below).

The remainder of Government Grant Funding relates to:

- Addressing Social Care Issues through Disabled Facilities Grants and introduction of the Whole Family Case Management System (£5m)
- Economic Development at Castlegate (£2.8m)
- Contributions towards Clean Air Targets (£0.5m)

The Council was required to return a £2.2m grant to Government. The Council was acting as broker for a private enterprise that was ultimately unable to utilise the funds.

### **D Housing Revenue Account (HRA)**

The HRA is the account in which a Council's housing revenue (e.g. tenants' rent) and housing costs (e.g. property management and maintenance) are kept. It is separate from the General Fund. Expenditure of £46.8m has been incurred on the maintenance of Council housing stock.

## E Developer and other contributions

These contributions totalling £7.2m are made up of section 106 and Community Infrastructure Levy (payments from developers as part of planning conditions set out by the Council when granting planning permission for developments), contributions from other authorities relating to the administration of regional loans and a major contribution to tenant requested changes as part of the Heart of the City II offices project.

### 7.2 Key risks to note

In July 2017, Cabinet approved the principle of cash-flowing the required **Schools Places Expansion Programme** in advance of receipt of funding allocations from Central Government.

The original forecast position for year-end 2018/19 was for programme expenditure to exceed grant received by £22.2m. The actual position at year end was a deficit of only £13.5m. This reduced in-year deficit is due to programme slippage (largely in relation to Astrea Academy - £4.2m) and a decision by the Department for Education to advance £3m of the £16.2m allocation of funds due in 2019/20 and 2020/21 into 2018/19.

Our auditors have agreed that the financing of the majority of this reduced in-year deficit can be taken via debtors against the remainder of the confirmed allocations (£13.1m). This means that only £0.4m of the Council's own resources now need to be applied.

A further £8.8m expenditure remains to be funded (budgeted expenditure in 2019/20 onwards plus slippage from 18/19). This represents the amount at risk i.e. the amount of expenditure committed to currently unfunded by confirmed allocations.

An announcement is expected in 2019/20 of the grant allocation for 2021/22. If the amount granted is less than £8.8m, this will require a further application of Council resources in lieu of further funding in 2019/20.

Initial estimates by the School Organisation Team indicated that the 2021/22 allowance could be up to £11m. However, changing government methodologies for the calculation of the grant mean this cannot be relied upon. This therefore remains a risk to the Council. That said, robust monthly monitoring of the Schools Places Expansion Programme has ensured that the level of potential risk has been quantified and work on the accounting treatment has significantly reduced the potential draw on corporate resources.

## 8 IMPROVING OUR PERFORMANCE

### Key actions we have taken to date and proposals for future improvements

Building upon the causes of slippage set out at section 6, we have taken and will continue to take steps to minimise the risk of slippage on the capital programme:

#### **Only fully funded projects can enter the capital programme**

Slippage can occur when a project is entered onto the capital programme and funding is then delayed. Going forward, only fully-funded schemes can enter the capital programme.

#### **Full project values will only be added to the capital programme following Gateway 2 approval**

This removes the risk of high project values being added to the capital programme at feasibility stage, when there is a higher risk of delay and the project has not been fully scoped. Work has already taken place to separate out business units and further work is ongoing in this regard.

#### **Ongoing challenge and support for project managers' forecasting**

Work has taken place in 2018/19 with project managers to challenge their highlight reports and forecasts, with the aim of improving performance. This work will continue in 2019/20.

#### **Improved reporting**

We introduced a new 'Variance Report' in 2018/19 to review all projects which were at variance for budget or delivery profile. This was a useful exercise, but proved disproportionately resource-intensive to maintain. We will therefore revisit this in 2019/20 to produce a new report to tackle this issue. The revised report is likely to include reporting on programme, risks, issues and other quality aspects of the project.

#### **Constructive challenge of business cases**

We introduced a 'Gateway Review Group' to provide an initial quality assurance filter for business cases prior to their submission to programme groups for consideration. This group includes representatives from Finance and Commercial Services and Capital Delivery Service to ensure a joined-up approach to both the financing and delivery of a project.

**Revisiting business units to distinguish slippage from re-profiling**

The historical elements of this exercise are due to complete in Q1 2019/20. Going forward, entire project values should not be added to the capital programme until a contract has been awarded and we have confidence that it will progress. Where projects are split into phases, future phases should not be added to the programme at the outset of phase 1.

**Revisiting our commissioning process**

Working with colleagues in Place Portfolio, we are working with elected Members to ensure our commissioning processes are further refined, minimising the risk of delay to projects later on in the governance process.

**Tackling delivery risks**

A key risk to capital project delivery is statutory undertakers. Historically, it has been difficult to engage with them as they often do not respond in a timely manner or provide robust estimates of costs or delivery timelines. Although our scope to improve this is likely to be limited, we will consider what if any actions we can take to improve the situation. We will also share lessons learned and best practice to support continuous improvement.

**More effective working with strategic partners**

We will revisit our operational processes when commissioning 'non-core' highways works through our strategic partner, Amey. We believe there is scope to improve these and reduce levels of slippage on the elements of the Transport capital programme they deliver.

# 9 GLOSSARY

## Definitions of key terminology

Slippage	For projects which are in delivery. Actual spend is below the level forecasted by the project manager. The logical conclusion is that the delivery of the project is falling behind programme.
Re-profile	For projects which are not yet in delivery. Preliminary budget allocations are moved in order to better reflect how we anticipate a project will be delivered as feasibility progresses and risks identified, quantified and mitigated.
Accelerated spend	Spend which is taking place sooner than anticipated – i.e. ahead of profile. This does not mean that the project will over spend.
Overspend	Spend in excess of approved budget. Further monies are required to complete the project.
Underspend	A saving. We have spent less to deliver the project than we anticipated and the saved funds can be diverted to other projects (or returned to the funder).
Internal adjustment	An accounting treatment applied at the end of an accounting period to bring balances up to date / virements between budget allocations.
Net slippage	The overall level of slippage remaining when accelerated spend or over spend has been deducted from the levels of slippage.
Variance	Where a level of spend or timescale is not in accordance with that originally forecasted.
Forecasting	A process undertaken each month by Project Managers to set out the anticipated profile of spend on each project. Reasons for changes are included in the Highlight Report.



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# Treasury Management Outturn Report 2018/19



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**Key Messages**

All investment and borrowing transactions were in line with the approved 2018/19 Annual Treasury Strategy Statement and the Annual Ethical Investment Strategy.

Borrowing for the year was below expectations, as there was little need to commit to long-term borrowing to “lock in” current low interest rates. This position remains under review, and we took advantage of a temporary fall in interest rates to replace £25m of maturing borrowing in March 2019.

Investment Income for the year exceeded budget despite low rates for most of the financial year.

During 2018/19 Bank of England Base Rates increased from 0.5% to 0.75% and inflation dropped to target levels (2%). Interest rates remain at historically low levels though.

## Director of Finance and Commercial Services Overview

The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2017/18 Outturn Report and a Mid-Year Treasury Management Update Report.

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

### The Strategy for 2018/19

The expectation for interest rates within the Treasury Management Strategy for 2018/19 correctly anticipated that the Bank Rate would only increase by 0.25% during the financial year.

The Treasury Management Strategy also anticipated steady increases in borrowing costs, and given Sheffield’s under borrowed position (using temporarily available cash balances to delay external borrowing, avoiding interest payments) we expected to take significant borrowing before rates started to rise. In practice increases in the cost of borrowing did not materialise due to domestic (Brexit) and international politics (e.g. US trade relation) as well as general cooling for many economies.

Consequently, the Authority reacted to continuing lower rates by further deferring new borrowing other than replacing borrowing maturing in the year. This has avoided in-year revenue costs but adds to the risk that potential interest rate increases will increase costs in future.

Investment returns have exceeded budgeted levels- partly as a result of the increase in UK Base Rate and partly due to the fact that investment balances remained at a higher level than anticipated.

The Council operated within the Prudential Indicator Limits for 2018/19 set by the authority (see annex for details of limits).

### Recommendation

Cabinet is asked to consider the 2018/19 Treasury Management Outturn Report and ask that it be forwarded to the Full Council, in compliance with CIPFA’s Code of Practice on Treasury Management.

**Key Messages**

Major capital investment, such as the Heart of the City Programme, has seen the CFR increase in year.

Actual capital expenditure was lower than anticipated, so the overall CFR figure at the year-end (£1,537m) is lower than the projection in the 2018/19 TMSS.

Within the overall CFR total, the HRA's CFR remains unchanged – as expected.

**Outturn Report**

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

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

The table below shows the outturn for 2017/18 and 2018/19, and the 2018/19 budget position including PFI liabilities.

	2017/18 Actual (£m)	2018/19 Actual (£m)	2018/19 Budget (from TMSS)
General Fund CFR (non PFI)	747	791	811
General Fund - PFI Liabilities	410	400	401
Overall General Fund CFR	1,157	1,191	1,212
HRA CFR	346	346	346
Total CFR	1,503	1,537	1,558

After adjusting for PFI liabilities of £400m, the overall underlying financing requirement of the Authority was £1,191m (up 3% on 2017/18).

Actual capital investment for 2018/19 was £208.3m, slightly down on the £214.1m set out in the TMSS. Capital Expenditure financed by borrowing was £20.7m lower than anticipated during the year; this is reflected by the lower than anticipated increase in the General Fund's CFR; as shown in the table above.

Gross external debt, excluding PFI liabilities, has increased by a net £3m to £803m, after accounting for maturing loans, when compared to 2017/18.

As the 2018/19 TMSS predicted, the overall CFR position for the Housing Revenue Account's (HRA) of £346m is unchanged on last year. The HRA CFR primarily relates to legacy housing investment, such as the Decent Homes programme.

**Key Messages:**

UK Growth remains subdued – partly due to the effects of Brexit and partly due to cooling in the wider global economy.

UK Base Rates were increased to 0.75% in August 2018, but there have been no further increases since, and the likelihood of future increases looks low in the near term.

Inflation has fallen to slightly below Bank of England target levels (2%), and is only expected to increase marginally above target in the next 2 to 3 years.

Brexit remains a cause of major uncertainty in the UK, and to a lesser extent EU, economies.

**External Context: The Economy and Interest Rates**

After weak economic growth of only 0.2% in quarter one of 2018, UK growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it was not a surprise to commentators that they abstained from any further increases since then. Commentators believe we are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers increased their hiring at the fastest pace in more than three years in the three months to January 2019, as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work increased by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

**Inflation:** As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%. The rise in wage inflation and fall in CPI inflation is positive news for consumers, as their spending power improves in this scenario, as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

**Brexit:** The Conservative minority government has so far been unable to muster a majority in the Commons over its Brexit deal. The EU set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support but no agreement has been reached. Currently, Prime Minister May is talking with Labour to get the withdrawal agreement over the line. However, if this fails, then it increases the chances of a general election in 2019. An election could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**Key Messages:**

Investment rates reflected the rise in UK Base rates to 0.75% since August 2018.

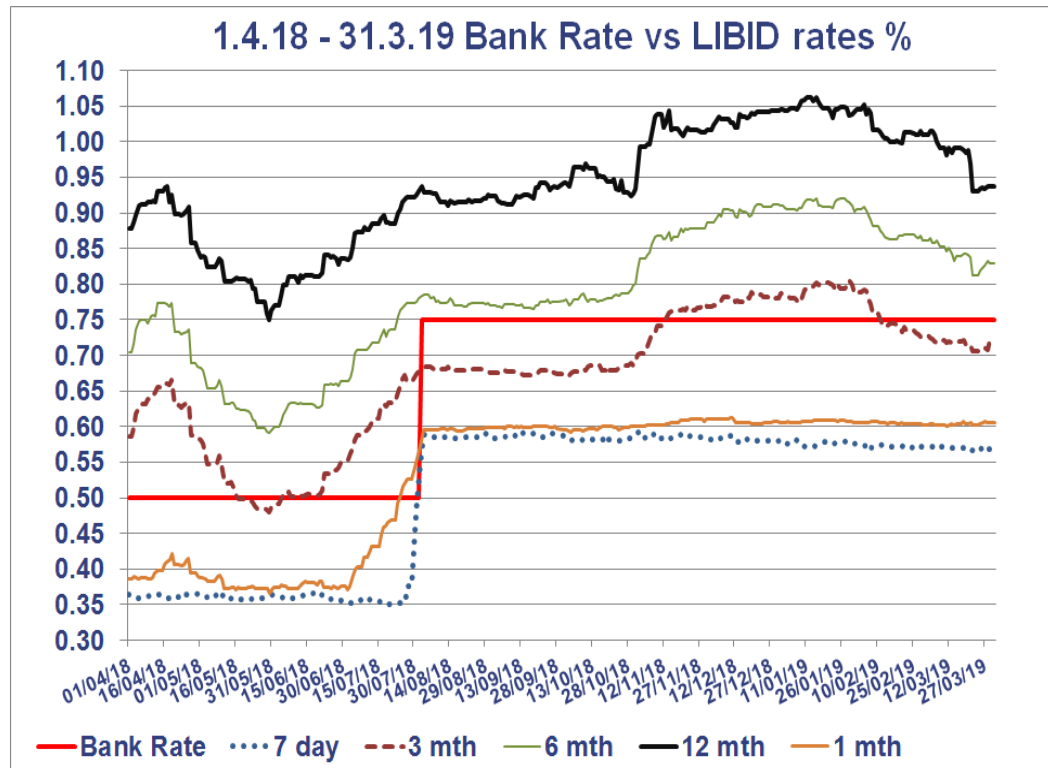
There was modest increase in market rates during late 2018 based on perceived inflationary pressures in the UK economy but this was short-lived, with rates falling back again.

Investment policy continues to apply a cautionary approach with investments made in low risk counterparties; but with correspondingly low returns.

**Borrowing and Investment Rates**

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018, with an increase announced at the Monetary Policy Committee (MPC) meeting on the 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances and liquidity requirements were sufficient to allow this.



Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.



**Key Messages:**

TMSS expected modest increase in borrowing rates during 2018/19.

Borrowing rate increases failed to materialise.

The Council took advantage of a temporary fall in borrowing rates arising from Brexit uncertainty – borrowing £25m at an average rate of 2.23%.

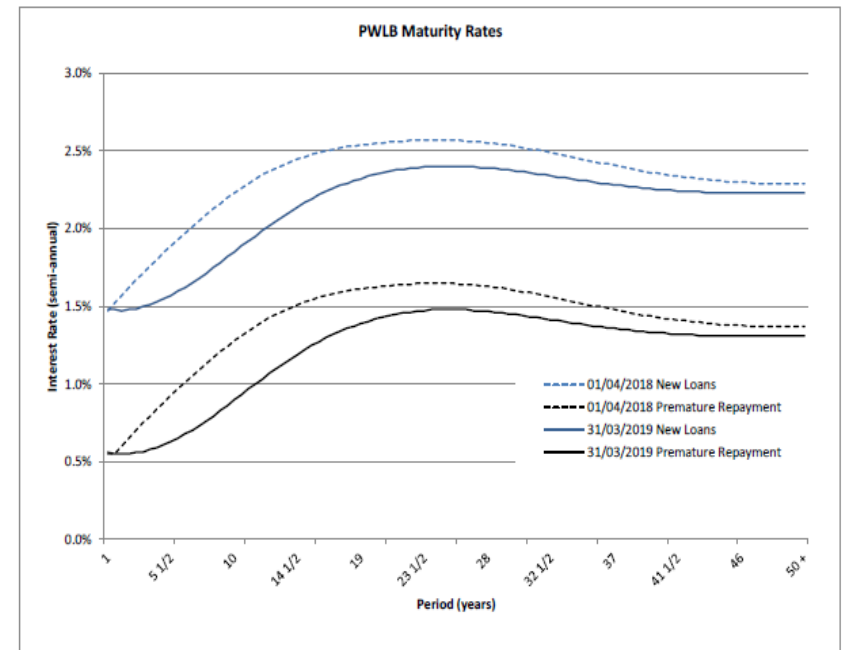
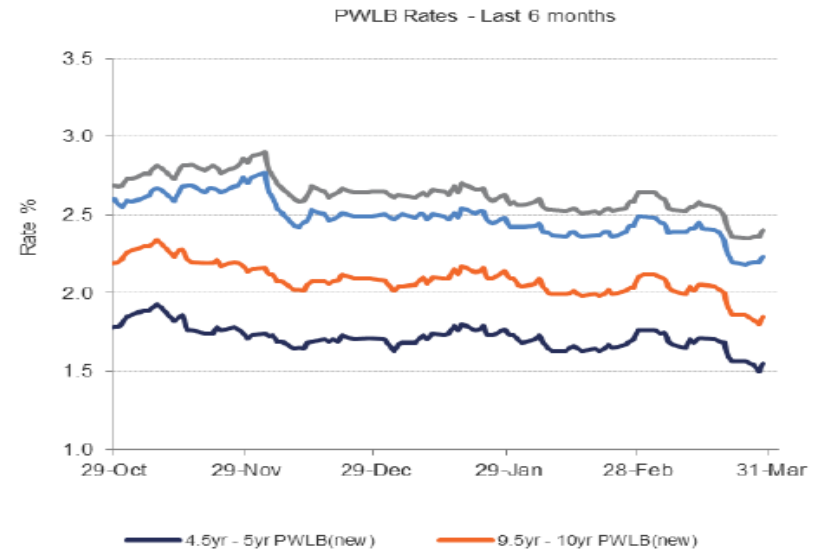
The TMSS predicted modest increase in borrowing rates during the year but with significant volatility month on month (an example of this volatility in PWLB rates is shown in the graph on the right).

Borrowing rates failed to increase as forecast in the TMSS and, due to a dip in PWLB rates at the year end, rates actually fell when compared to the beginning of the year – albeit temporarily.

Consequently the Authority was under little pressure to lock in new borrowing and thus reduce its under borrowed position. This has resulted in savings in capital financing costs during 2018/19 – helping to support revenue budgets.

During March 2019, PWLB rates fell significantly caused by the increased uncertainty prior to the the original Brexit departure date - driving rates lower and creating an opportunity to borrow. This drop in rates can clearly be seen at the end of the chart above. However, PWLB rates have subsequently returned closer to the average for the year.

We took advantage of the fall in rates to take £25m of new borrowing in March 2019 but this effectively replaced borrowing that had matured earlier in the year.



**Key Messages:**

Internal Funds largely allowed the Authority to postpone borrowing for the schemes listed the table opposite.

Borrowing will be needed to replace these internal funds as they will eventually be used for their original purpose.

The overall level of capital investment being funded through prudential borrowing is less than originally expected.

**Borrowing Outturn for 2018/19**

The table below shows the breakdown for capital expenditure that should have been financed by external borrowing during the year. However, SCC only borrowed a net £3m to support the Council's capital investment programme. The balance was temporarily financed using surplus internal funds; a consequence of this strategy is an increase to the Authority's under borrowing position.

	£000	£000
<b>Original borrowing estimate per 18/19 TMSS</b>		<b>81,400</b>
Expenditure on Schemes creating a Borrowing need:		
Heart of the City	45,404	
Leisure Facilities	12,532	
Waste Management	2,202	
Other	520	
<b>Total Borrowing needed:</b>		<b>60,658</b>
<b>Variance to TMSS</b>		<b>- 20,742</b>

Increasing under borrowing is contrary to the Strategy set out in the 2018/19 TMSS, which sought reduce this risk. However the borrowing environment and opportunity to delay further the revenue costs of borrowing made this alternative strategy acceptable.

Under borrowing remains at manageable levels, but this does add to interest rate risk – if and when interest rates do begin to rise. However, significant rate increases are not anticipated in the near future and, as put forward by the Bank of England, any future increases are expected to be modest and gradual.



**Key Messages:**

Borrowing taken in the year broadly replaces borrowing repaid in the year.

Some of the borrowing repaid was short term borrowing which typically attract lower level of interest rates.

The new borrowing undertaken is for longer duration, but the interest rates continue to be attractive.

The low level of net borrowing does mean that under borrowing has increased, contrary to the strategy set out in the TMSS. However interest rates are only expected to increase gradually.

Details of the borrowing taken and repaid in 2018/19 are shown in the table below:

Loan Repayments and Borrowing 2018/19						
New Borrowing				Loans Repaid		
Counterparty	Amount (£000)	Term (Years)	Interest Rate (%)	Counterparty	Amount (£000)	Original Rate (%)
PWLB	20,000	50	2.56	PWLB	5,000	1.76
PWLB	10,000	50	2.20	RBS LOBO	20,000	7.43
PWLB	10,000	49	2.22	Local Auth ST	2,000	1.35
PWLB	5,000	19	2.31	Local Auth ST	15,000	0.45
	<b>45,000</b>				<b>42,000</b>	
Net borrowing	<b>3,000</b>					

Borrowing is currently attractive to take advantage of historically low borrowing rates, and to ensure our under borrowed level remains at sustainable levels in line with the TMSS. However current rates and forecasts for future rates have remained lower than anticipated in the Treasury Strategy. This extension of the current low rate environment; coupled with strong cash balances has allowed the Authority to borrow internally for the Capital Programme, and avoid the additional revenue expense of the cost of carry (the difference between borrowing and investment rates for funds borrowed prior to being needed) for new borrowing. Consequently, any additional borrowing will be taken cautiously, whilst keeping a close watch on forecasts of longer-term rates. Once these rates are forecast to increase significantly in the near future, we will take out additional long-term debt in advance of these increases, to lock in the current low interest rates.

The decision to defer borrowing until Q4 of 2018/19 was taken in consultation with the Head of Strategic Finance, resulting in the capital financing budget being underspent for the year. This underspend was used to help support the corporate budget. The average rate of interest paid on the Council's external debt has decreased to 4.04% in 2018/19 compared to 4.12% in 2017/18.

As at 31 March 2018, the loans portfolio, excluding PFI liabilities, totalled £803m, and indicates the Council is under borrowed by £334m – up £41m on 2017/18 (£293m), mainly comprising £61m of borrowing need, reduced by £16m of MRP made.

**Key Messages:**

Debt rescheduling is still unattractive in the main. However, repayment of a £20m LOBO loan with RBS was possible.

Investment balances held by the Council were expected to decrease during the year - but this turned out not to be the case.

Investment balances increased by £24m compared to 31 March 2018 – primarily as a result of PWLB borrowing taken in March 2019.

Investment returns remain subdued – due to market conditions and the policy to invest in low risk counterparties. However, the level of return was better than budget (0.76% vs 0.60%)

Debt Rescheduling

During the year the average 1% differential between PWLB new borrowing and premature repayment rates made most PWLB rescheduling unfeasible. However, the Council was approached by one of its market lenders, Royal Bank of Scotland, offering preferential rates on early redemption of the Lender Option Borrower Option (LOBO) loan. Consequently, as the early repayment of the loan offered approx. £250k per annum financial savings over the remaining 40 year term, the Council redeemed this £20m loan early, as shown in the table on page 9.

**Investment Outturn**Ethical Investment Policy

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

The investment activity during the year conformed to the approved Investment Strategy.

Investments held by the Council

The Council maintained an average balance of £109.2 of internally managed funds compared to the Council only having funds for day to day cash flow purposes. As at 31<sup>st</sup> March 2019, investments were £114m; up £24m on the previous year (2017/18). The Council had no liquidity difficulties during the year.

The internally managed funds earned an average rate of return of 0.76% against a budgeted return of 0.60% as higher cash balances allowed more money to be held in longer term call accounts.

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

**Key Messages:**

The introduction of a new financial reporting standard (IFRS 9) has had limited impact on treasury investments.

However, provisions for expected credit losses on loans to third parties and other non-treasury investments have impacted on the Council's revenue budget.

**Other Issues****IFRS 9:**

The changes required by the introduction of IFRS 9 involved the classification and measurement of financial instruments and introduced provisions for Expected Credit Losses (ECL), rather than incurred credit losses under previous arrangements. ECL have the potential to be higher and hence incur a greater charge to revenue than under the previous approach.

The reclassification of financial instruments in the accounts required by IFRS9 had little impact on treasury investments. The reclassification saw all opening balances transfer from Loans and receivables to amortised cost and therefore had no impact on revenue.

In terms of Expected Credit Loss provisions, the high quality counterparties and the short term nature of treasury investments meant the expected credit loss was immaterial.

However, non-treasury Investments (e.g. loans to third parties or loans to subsidiaries) were all assessed for expected credit losses and the additional provision charged to revenue where applicable.

**Annex 1: Outturn Position with General Fund & HRA Split**

The overall Treasury position as at 31 March 2019 (excluding debt from PFI and finance leases) split across the General Fund and the Housing Revenue Account was as follows:

Authority	2017/18 (£m)	Rate/ Return	2018/19 (£m)	Rate/ Return
Total debt	800	4.10%	803	4.04%
CFR	1093		1137	
Over / (under) borrowing	-293		-334	
Total investments	90	0.48%	114	0.76%
Net debt	710		689	

General Fund	31 March 2018 Principal	Rate/ Return	31 March 2019 Principal	Rate/ Return
Total debt	510	4.00%	518	3.97%
CFR	747		791	
Over / (under) borrowing	-237		-273	
Total investments	90	0.48%	114	0.76%
Net debt	420		404	

HRA	31 March 2018 Principal	Rate/ Return	31 March 2019 Principal	Rate/ Return
Total debt	290	4.54%	285	4.57%
CFR	346		346	
Over / (under) borrowing	-56		-61	
Total investments	0	n/a	0	n/a
Net debt	290		285	

## Annex 2: Prudential and Treasury Indicators

During 2018/19, the Council complied with its legislative and regulatory requirements including the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2017/18 Actual £000	2018/19 Actual £000	2018/19 Estimate (TMSS) £000
Capital expenditure:			
General Fund	183,523	148,812	135,400
HRA	63,001	59,511	78,700
Total	246,524	208,323	214,100
Capital Financing Requirement:			
General Fund	1,156,759	1,191,113	1,212,100
HRA	345,941	345,914	345,914
Total	1,502,701	1,537,027	1,558,014
Gross debt	1,209,555	1,203,082	1,347,700
Net External debt (gross debt less investments)	1,119,452	1,089,088	1,221,300
Investments			
Longer than 1 year	0	0	0
Under 1 year	90,103	113,994	84,380
Total	90,103	113,994	84,380

The Council's net external debt has decreased by £30.4m this year, whilst our overall need for borrowing, which is represented by the CFR, has increased by £34.3m.

Movements in Net Debt	2018/19 Movement £000
New Borrowing	3,000
Less PFI Repayments	-9,473
Less increase in Investment balances	-23,891
Total	-30,364

The CFR increases when we use borrowing to fund capital projects, whilst external debt goes up when we take on new loans or

other credit arrangements such as PFI liabilities.

Net debt has decreased as a result of a decision taken by the Council to defer borrowing identified in the original TMSS and continue to operate with a higher than forecast under borrowed position. This opportunity to delay / avoid revenue cost is afforded because cash balances remain high and the rate environment continues to be stifled by political and economic headwinds, this decision does also carry increased interest rate risk exposure.

However, following the above strategy combined with an under spend on the capital programme meant that the Council continued to hold large sums of cash on deposit throughout the year. These deposits were placed with an array of AAA rated, instant access money market funds and fixed-term and call account deposits with banks. This investment policy meant that we sought to minimise security risks of our deposits, but deposit returns were relatively low at 0.76% (albeit above the average UK Bank Base Rate of 0.67% during 2018/19).