Revenue Budget & Capital Programme Monitoring As at 30th September 2019

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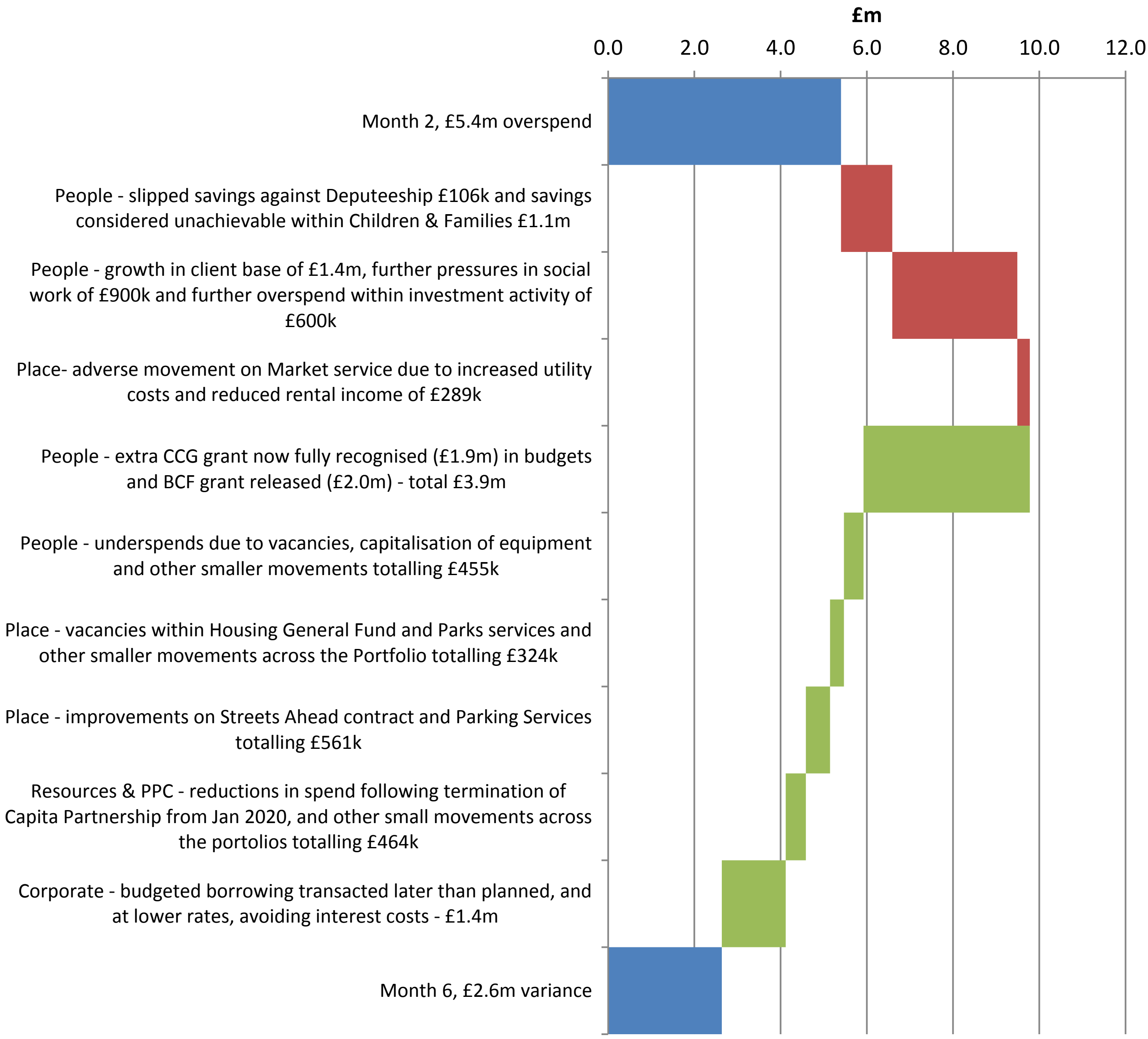
Purpose of the Report

1. This report describes the budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 6.

Summary

2. The Council's revenue budget is currently forecast to be overspent by £2.6m.

3. The below graph summarises the early movements toward this forecast outturn from the Month 2 position reported to Cabinet in July[1].



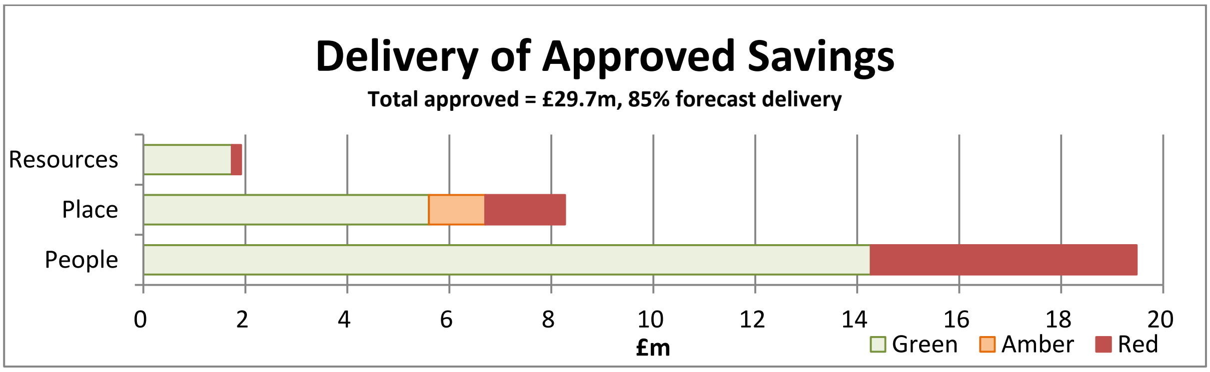
[1] Item 12, Cabinet,17th July 2019.

4. It should be noted that this position represents the worst case scenario. Almost the entirety of the overspend is within Social Care budgets, reflecting nation-wide and much publicised demand and cost pressures within that sector. The authority has made a significant investment in social care services within its 2019/20 Budget, and this investment is reflected in a much reduced forecast overspend compared to this time last year (a £14.2m overspend was forecast at Month 6 18/19). We expect this position will improve further over the course of the rest of this year, as measures to control demand and spending have further effects.

Savings Monitoring

5. The 2019/20 Budget approved £29.7m of savings within Portfolios. These savings are monitored by Business Partner Teams within Finance and Commercial Services to assess their prospects of delivery.

6. The below graph displays the amount of savings proposals categorised using the traffic light approach with the following parameters – Green (no more than 10% or £50k at risk of non-delivery), Amber (no more than 25% or £500k at risk) and Red (less than 75% deliverable, or more than £500k at risk).



7. The overall amount of savings considered at risk of non-delivery in the above is £4.3m, representing 15% of the original approved amount. This amount has worsened by 3% from 12%, representing £838k of additional risk of non-delivery since Month 2. At Month 6, work is ongoing to secure the delivery of challenging savings and to identify other mitigations.

Dedicated Schools Grant (DSG)

8. At Month 6, the Council is forecasting a £1.5m overspend on DSG budgets. The key reasons for the £1.5m overspend are a forecast £1.3m overspend relating to SEND placements, reflecting higher costs and demands for these placements. The movement from month 2 is an increase in the overspend of £400k, mainly due to an increase in the number of Independent Specialist Provision (ISP) placements and cost increases on an individual placement.

Public Health

9. Public Health services are funded by Public Health Grant – any variances to budgeted expenditure will be managed by adjusting the drawdown of grant income to match, therefore

Public Health variances will be nil in terms of net expenditure and therefore do not impact the above reported position. The Public Health reserve will be utilised in case of any overspend at year end – there is forecast to be no General Fund impact this year. This table demonstrates the variances to budget before the application of grant income.

Public Health	Forecast Outturn	Full Year Budget	Forecast Variance	Movement from Month 2	Variance Mth 2	Diff Mth 6 to Mth 2
People	27,861	27,390	471	⇔	495	(24)
Place	2,830	2,872	(42)	⇩	76	(118)
Director of Public Health	1,771	1,916	(145)	⇔	(105)	(40)
Total	**32,462**	**32,178**	**284**	⇩	**466**	**(182)**

10. The key reason for this position is additional costs relating to the sexual health services in Children's Public Health, relating to late commencement of the new contract (and services commissioned on the old basis in the interim), later implementation of improved delivery methods and the costs of the eventual contract. This results in a £471k overspend.

11. This is offset partly by underspends against employees (£23k in Place and £42k in DPH), contracts (£24k in Place) and supplies and services (£99k in DPH).

Housing Revenue Account

12. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme of £3.3m. As at Month 6 there is an adverse variance of £72k from this budgeted position.

Housing Revenue Account *(excluding Community Heating)*	Forecast Outturn	Full Year Budget	Forecast Variance	Movement from Month 2	Variance Mth 2	Diff Mth 6 to Mth 2
1. Net Income - Dwellings	(139,087)	(138,761)	(327)	⇩	632	(959)
2. Other Income	(6,353)	(6,311)	(42)	⇔	(6)	(36)
3. Tenant Services incl. Repairs & Maintenance	89,696	89,240	456	⇩	557	(101)
4. Depreciation	39,284	39,284	(0)	⇔	0	(0)
5. Interest on borrowing	13,250	13,265	(15)	⇔	0	(15)
6. Contribution to Capital Programme	3,210	3,282	(72)	⇧	(1,183)	1,111
Total	**0**	**0**	**0**	⇔	**-**	**0**

13. The main factors influencing the outturn position are lower than budgeted rental income and an overall net increase in repairs and running costs. The position on the account will be monitored throughout the year.

14. There is also an improvement within Community Heating of £75k, reflecting lower than expected usage due to milder weather.

Sheffield City Trust

15. Further to the recent report to the Economic and Environmental Wellbeing Scrutiny Committee[2], investments are needed into Sheffield City Trust (SCT) to keep the facilities open.

16. The Council and SCT have been working to reduce the subsidies paid to support SCT's operations. This was based on both market intelligence from national benchmarking and

[2] Item 8, October Economic and Environmental Wellbeing Scrutiny Committee, 22nd October 2019

SCC's own recent experience. In 2018 a 6 year business plan was received from SCT that proposed to move to a zero subsidy by 19/20.This relied heavily on plans to grow their income base over the first 2 years. This proposal was agreed, but is not being achieved by SCT, with deficits over the last few years averaging £2.8m (excluding SCC subsidy) and it is expected to continue at this level.

17. Competition from low cost operators and the Leeds Arena entering the market in recent years has also impacted SCT's financial position and contributed to this budget deficit of £2.8m. This means that more cash is being spent running the facilities (staff salaries, utilities etc) than is received (entrance and membership fees etc) and will ultimately drain SCT's bank balance if no subsidies exist to fill the gap.

18. This report recommends that up to £2.8m of subsidy is made available to SCT this financial year. The subsidy will be by way of grant funding under the existing contractual arrangements. Under the shortfall agreement for the Major Sports Facilities the Council is obliged to grant fund any net loss, and there is a fixed sum grant for City Hall. Under the other arrangements there is no obligation to provide funding outside of what has been agreed as part of annual business planning, and the balance of this funding is a revision to that agreement.

19. There is a significant essential maintenance requirement across the facilities that SCT operate, but there is no need to make any decisions on addressing all of this requirement at this stage. However, around £3.5m of maintenance and health and safety work is required over the next 18 months to keep the facilities open to the public. The works and amounts have been verified by the Council's Officers, working closely with SCT.

20. This report recommends that a grant of up to £3.5m is made to SCT in 2019/20, as part of the ongoing efforts to assist SCT to maintain public access to SCT-run facilities.

21. SCT is also exposed to significant cash flow fluctuations, in particular as monies are received for events and then paid over to promoters. The ongoing revenue challenges have reduced SCTs cash reserves, meaning that there are times when their cash flow position becomes difficult. Consequently the Council approved and paid over £1m earlier in 2019/20, as a loan rather than a grant. Officers are working with SCT on their financial position, and it is possible that further requests for cash flow support may be received in the future.

22. In addition to these investments, this report requests approval for the Council's own costs (including consultancy support) that are being incurred to develop a long term leisure strategy. These costs are estimated at up to £250k for 2019/20. A further estimate for 2020/21 and beyond will be included in the 2020/21 Budget Book.

23. This funding is considered to be within the powers of the Council to fund not for profit organisations providing leisure facilities. It is also considered compliant for the purposes of State Aid.

Collection Fund

24. As at Month 6, the local share of the Collection Fund income stream is forecast to have an overall in-year surplus of £1.0m, made up of a £0.2m surplus on Council Tax and a £0.8m surplus on Business Rates. This position is discussed in more detail within **Appendix 1**.

Capital Summary

25. The approved capital programme budget for 2019/20 at 31 September 2019 was £175.2m. The overall outturn of expenditure against this approved budget is forecast to be £151.3m, representing a variance of £23.9m. Further monitoring of the Capital Programme is reported in **Appendix 2**.

Corporate Risk Register

26. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. **Appendix 3** to this report details significant changes to that document.

Treasury Management Review

27. The Council's 2019/20 Revenue Budget included the Treasury Management Strategy, covering the Council's capital finance requirements and investment strategy. **Appendix 4** to this report contains a summary of the Treasury Management position for the period to 30th September 2019, publication of prudential and Treasury Management indicators and the potential implications for revenue budgets.

Implications of this Report

Financial implications

28. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2019/20, and it does not make any further recommendations that have additional financial implications for the City Council.

Equal opportunities implications

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

Legal implications

30. There are no specific legal implications arising from the recommendations in this report that are not dealt with within the relevant section.

Property implications

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

Recommendations

32. Cabinet are asked to:

(a) Note the updated information and management actions provided by this report and the attached appendices on the 2019/20 Revenue Budget Outturn.

(b) In relation to the Capital Programme, note the forecast Outturn position described in **Appendix 2**.

(c) Note the review of the Treasury Management Strategy and prudential indicators in **Appendix 4**.

(d) Consider for approval the requests in the Sheffield City Trust section of this report relating to operational subsidy funding, and additional grant financing to support capital maintenance. Also consider for approval the request for approval of funding for the Council’s own additional costs for developing a long term leisure strategy.

Reasons for Recommendations

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

Alternative options considered

34. 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.

Collection Fund Monitoring
As at 30th September 2019

Summary

1. In 2019/20 approximately £315.6m of SCC net expenditure is forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

2. As at the end of May, the local share of the Collection Fund Income Stream is forecasting an overall in-year surplus of £1.0m made up of a £0.2m surplus on Council Tax and a £0.8m surplus on Business Rates. Due to Collection Fund accounting regulations, this surplus is not available for in-year use and will be fed into the budget process for 2020/21.

Income Stream (all figures £m)	**Budget 19/20**	**Billed to Date**	**Forecast Year End Position**	**Variance**
Council Tax	(216.3)	(169.4)	(216.5)	(0.2)
Business Rates Locally Retained	(99.3)	(127.5)	(100.1)	(0.8)
Total	**(315.6)**	**(297.0)**	**(316.6)**	**(1.0)**

Council Tax

3. The forecast year end position for Council Tax is a surplus of £0.2m. This is primarily because of an additional £0.9m of Council Tax income resulting from an increase in the number of dwellings and a reduction in Council Tax Support of £0.4m. This improvement is offset by a £1.1m increase in exemptions mainly due to student exemptions. This forecast surplus maintains the position as at month 2.

Business Rates

4. The forecast year end position for Business Rates is a £1.8m surplus of which Sheffield’s share is £0.8m. The £1.8m surplus is primarily made up of an increase on the Gross Rates Income Yield of £4.1m offset by an increase in empty property/statutory relief of £1.9m. Further analysis of the business rates position can be found on the following pages.

Collection Fund - Business Rates (all figures £m)	Budget 19/20	Billed to Date	Forecast Year End Position	Variance
Gross Business Rates income yield	(262.7)	(269.8)	(266.8)	(4.1)
Estimated Reliefs	46.7	44.0	47.7	1.0
Losses on collection, appeals and increase/(decrease) to bad debt provision	11.1	(0.2)	10.5	(0.5)
Net Collectable Business Rates	**(205.0)**	**(226.0)**	**(208.6)**	**(3.6)**
Transitional Protection Payments due	2.7	4.5	4.5	1.8
Cost of Collection allowance	0.8	0.8	0.8	0.0
Non Domestic Rating Income	**(201.5)**	**(220.8)**	**(203.3)**	**(1.8)**
Appropriation of net business rates:				
Sheffield City Council (49.2%)	(99.3)	(108.8)	(100.1)	(0.8)
SY Fire Authority (1%)	(2.0)	(2.2)	(2.0)	-
Central Government (49.4%)	(99.5)	(109.0)	(100.5)	(1.0)
Designated Areas (0.4%)	(0.7)	(0.8)	(0.7)	-
Total Appropriations	**(201.5)**	**(220.8)**	**(203.3)**	**(1.8)**

Gross Rates Income Yield

5. The Gross Business Rates Income Yield has increased primarily due to delays in major retail development. As part of the 2019/20 budget setting process, we built in expected decline in gross business rates due to large scale retail redevelopments. For the period of the redevelopment, it is expected that business rates income will drop due to affected hereditaments appealing and thus reducing their rateable value. This development has subsequently been delayed until late 2019 and should this delay in the development continue, then the surplus for 2019/20 will increase.

Reliefs and Discounts

Reliefs (all figures £m)	Budget 2019/20	Billed to Date	Forecast Year End Position	Variance
Small Business Rates Relief	13.3	13.1	13.6	0.3
Transitional Relief	(2.7)	(4.5)	(4.5)	(1.8)
Mandatory Charity Relief	23.6	23.3	24.1	0.5
Discretionary Relief	1.5	0.3	1.2	(0.3)
Empty Property / Statutory Exemption	7.2	8.1	9.1	1.9
Partly Occupied Premises Relief	0.6	0.6	1.0	0.4
New discretionary reliefs	3.2	3.1	3.2	(0.0)
Total Reliefs	**46.7**	**44.0**	**47.7**	**1.0**

6. Most reliefs and discounts are generally awarded in full at the point of billing in March. The total level of reliefs awarded to the end of September amounts to £44.0m which is £2.7m below the £46.7m in the budget. These reliefs are expected to rise to £47.7m by year end. This forecast increase is primarily due to increased empty property/statutory reliefs, along with expected reliefs for partially occupied properties and anticipated discretionary reliefs being realised.

Appeals

7. The 2019/20 Council budget anticipated £7.5m of in year refunds resulting from appeals. To date, the number of Check, Challenges and Appeals being processed by the VOA are significantly reduced on previous years. Data released by MHCLG in March 2019 show that there were over 130 Challenges and approximately 100 Checks outstanding for Sheffield.

8. There have been discussions with MHCLG and the VOA about the data that we receive with the hope of extracting more user friendly management information. This is ongoing and is anticipated to see improved results in 2020/21.

9. The VOA have committed to resolving all outstanding 2010 list appeals bar for any in litigation by September 2019. The major case currently under litigation relates to ATM's. The VOA have been granted leave to appeal the latest decision by the Supreme Court however this is not expected to be cleared for approximately 18 months. The case is currently decided in favour of the parties bringing this suit and we have a prudent provision to meet all obligations should this be the eventual outcome.

Conclusion

10. The forecast in year position of a £1.0m surplus on the Collection Fund is healthy however there is still time for this to change before year end. Due to the size of the Collection Fund, a small percentage variation in income or expenditure over the coming months will have a significant impact on the forecast outturn. Monthly monitoring of the Collection Fund position is conducted to ensure that we are fully aware of any change and the potential budget impacts.

11. The delay in the major retail development has had a positive impact on the current in-year surplus, should this be delayed further, the in-year surplus will increase. It should be noted however that significant delays or cancellations of these major redevelopments will negatively impact on the long-term Business Rates growth forecast for the city.

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CAPITAL PROGRAMME MONITORING AS AT SEPTEMBER 2019

1 - Statement of Budget Movement

The table below summaries the movement in budget from month 2 (last report to cabinet) to month 6 and the Capital programme budget position as at September19.

	2019/20	2020/21	Future	Total
Month 2 Approved Budget	178.0	150.6	299.4	628.0
Additions	10.6	31.1	87.7	129.4
Variations	-0.2	-12.0	-32.5	-44.7
Reprofile	-15.7	-1.3	16.9	0.0
Slippage and Acceleration	2.5	0.0	-2.5	0.0
Month 6 Approved Budget	**175.2**	**168.5**	**369.0**	**712.7**

Comments

The key changes to the programme from month 2 (last report to cabinet):
ADDITIONS (+129.4m)
+ 62.5m HOCII blocks H2 and H3
+ £38.6m Addition of new Council Housing Roofing Replacement Programme
+ 14m Council Housing New Build Phase 10
+£6.7m Clean Air Zone Measures and Clean Bus Technology
VARIATIONS (-44.7m)
- £52m from Housing Programme Block Allocations to fund additions re: New Build & Roofing
+ £2.3m - Variation to HOCII budget Carver Street to progress lease to 3rd party
+ £2.3m - Variation to include delivery phase of Aldine House Extension budget
REPROFILES (19/20- 15.7m)
- £13.2m HOC II reprofiles - £2.2m Housing Block Allocation reprofiles
ACCELERATION (19/20 +2.5m)
+ £2.5m Council Housing Kitchen and Bathroom replacement

2 - Top 20 Projects by value as at September 2019

The table below summarises the Top 20 projects in the Capital Programme by budget value in 2019/20. This group accounts for 57% of the 2019/20 capital programme. The major in-year and

PROJECT	Current Year								Remaining Life of Project					Comments
Values in £000	YTD Actual	YTD Budget	YTD Variance	FY Outturn	FY Budget	FY Variance	Variance %	Delivery Forecast RAG	All Years Outturn	All Years Budget	All Years Variance	Variance %	Delivery RAG	
Msf Finance	6,778	6,884	(106)	13,767	13,767	0	0.0%	NR	78,145	78,145	0	0.0%	NR	
New Build Coun Hsg Ph 4a	68	29	39	358	8,269	(7,911)	-95.7%	G	21,973	14,759	7,214	48.9%	G	See item 4.1
Electrical Strategy	5,316	4,473	844	9,266	7,958	1,308	16.4%	G	13,958	13,958	0	0.0%	G	See item 5.1
Council Hsg Acquisitions Prog	2,836	4,196	(1,361)	6,787	7,318	(531)	-7.2%	G	41,922	41,922	(0)	0.0%	G	YTD behind budget due to slow legal process on 20 properties. FY variance is an extrapolation of this.
Programme Management Costs Gf	2,710	2,710	(0)	5,419	5,420	(1)	0.0%	G	8,129	8,130	(1)	0.0%	G	
New Build Council Hsg Phase 2	1,186	2,596	(1,410)	4,477	5,377	(900)	-16.7%	G	5,389	5,389	(0)	0.0%	G	See item 4.8
Devonshire Quarter	3,542	3,790	(249)	5,100	5,100	(0)	0.0%	NR	5,100	5,100	(0)	0.0%	NR	
Brownfield Site	-	-	-	4,990	4,990	-	0.0%	NR	5,981	5,981	-	0.0%	NR	
Transport Efficiency	127	489	(362)	4,888	4,888	-	0.0%	NR	4,888	4,888	-	0.0%	NR	
Grey 2 Green Ph2	883	1,391	(508)	3,703	4,824	(1,121)	-23.2%	A	4,824	4,824	(0)	0.0%	A	See Item 4.7
Clean Bus Technology	860	2,072	(1,213)	2,672	4,472	(1,800)	-40.2%	NR	4,472	4,472	0	0.0%	NR	See item 4.3
Astrea Academy	3,296	3,296	0	4,107	4,119	(12)	-0.3%	A	4,107	4,119	(12)	-0.3%	A	
B Laycock House New Build	1,124	1,035	88	3,611	3,615	(3)	-0.1%	A	16,116	16,116	(0)	0.0%	A	
C Pepper Pot Building	1,069	1,187	(118)	3,173	3,186	(13)	-0.4%	G	17,240	17,240	(0)	0.0%	G	
Pitched Roofing & Roofline	1,638	1,640	(2)	2,943	3,000	(57)	-1.9%	G	2,943	3,000	(57)	-1.9%	G	
Broadfield Road Junction	41	1,225	(1,185)	2,111	2,714	(603)	-22.2%	R	3,501	3,182	319	10.0%	R	Forecast project costs exceed available budget. Additional funds sought. Project on hold until it is confirmed that there is sufficient funds to deliver the scheme. Current year underspend as a result of this.
Adaptations	1,089	1,584	(495)	2,499	2,704	(205)	-7.6%	G	12,704	12,704	(0)	0.0%	G	Slippage due to customer postponements.
Garage Strategy-improvement	1,109	1,350	(241)	2,521	2,521	(0)	0.0%	G	2,884	2,521	363	14.4%	G	Awaiting
S H Mgmt Fees Commissioned	1,253	1,253	-	2,505	2,505	-	0.0%	NR	12,676	12,676	-	0.0%	NR	
Srq Offices	690	878	(188)	2,501	2,501	0	0.0%	A	2,501	2,501	0	0.0%	A	
Top 20 Value	**35,614**	**42,079**	**(6,465)**	**87,400**	**99,248**	**(11,848)**	-11.9%		**269,454**	**261,628**	**7,827**			
Rest of Programme	21,976	30,043	(8,067)	63,941	75,980	(12,039)	-15.8%		451,178	451,032	146			
Total Capital Programme Value	**57,590**	**72,122**	**(14,532)**	**151,340**	**175,227**	**(23,887)**	-13.6%		**720,633**	**712,660**	**7,973**			
% of Programme within the Top 20	**62%**	**58%**	**44%**	**58%**	**57%**	**50%**			**37%**	**37%**	**98%**			

3 - Current Year to date and Forecast Outturn Position

The forecast outturn position is £23.9m below budget. This represents a reduction of £14.4m from the £38.3m below budget reported at Mth 5. The key variances by board are explained below. The key underlying reasons for the movement relate to **HOCII-** £12.5m approval of reprofiled budgets to bring these in line with forecast expenditure, **Housing Investment** £3.5m - approval of reprofiled budgets to bring these in line with forecast expenditure. These movements toward budget offset by: increased slippage in **Transport-** £0.6m Clean Bus Technology, **Green and Open Spaces -** £0.5m Section 106 allocation, **Essential Compliance -** £150k Woodhouse Hub, £80k Condition Surveys, £250k potential saving on Sorby House FRA works.

BOARD	YEAR TO DATE			FULL YEAR			Comments
Values in £000	Actual	Budget	Variance	Forecast	Budget	Variance	
QUALITY OF LIFE	6,434	7,083	(650)	15,557	16,012	(455)	Expected saving on Brown Bins implementation scheme
HOUSING GROWTH	8,720	12,718	(3,997)	26,289	36,476	(10,187)	See items 4.1, 4.8, 4.10 + £0.6m slippage on acqusitions and refurbishments.
HOUSING INVESTMENT	19,571	21,280	(1,709)	40,484	47,935	(7,451)	See items 4.2, 4.4, 4.5 & 4.6 for key reasons. In addition smaller Block allocations no longer expected to be utilised in year
ESSENTIAL COMPLIANCE & MAINT	1,736	2,752	(1,016)	8,793	9,548	(754)	Forecast saving on Sorby House FRA (£250k), slippage on Woodhouse Hub (£150k), remainder slippage on various Essential Replacement schemes
ECONOMIC GROWTH	4,401	6,161	(1,760)	10,915	12,743	(1,829)	See item 4.7 + plus slippage on flood schemes £0.5m , rebate on BRT North Scheme £0.2m
TRANSPORT	2,116	5,085	(2,968)	13,420	15,943	(2,524)	See item 4.3 + slippage on Broadfield Road scheme (£0.6m) and forecast non delivery of Petre St scheme (£0.1m)
PEOPLE CAPITAL & GROWTH	8,108	9,729	(1,621)	14,134	13,289	845	See items 5.2,5.3,5.4 and 5.5. Offset by forecast slippage on Astrea Sports pitch (£0.5m), minor works grants (£0.2m) and a saving on Don Valley school sports provision (£0.1m)
HEART OF THE CITY II	4,934	5,698	(764)	19,125	20,180	(1,055)	See item 4.9 + £0.1m slippage on demolitions
CORPORATE	1,250	1,250	-	1,250	1,250	-	
GREEN & OPEN SPACES	320	367	(47)	1,374	1,851	(476)	Relates to forecast reprofile of Parks Section 106 block allocation
Grand Total	**57,590**	**72,122**	**(14,532)**	**151,340**	**175,227**	**(23,887)**	

4 - Top 10 Forecast Slippage against Full Year Budget

The table below illustrates that of the £19.7m main forecast underspends against budget, £3.8m relates to delays in schemes in delivery or where contract has been awarded. £7.4m relates to re-profiling of allocations not yet committed and £8.5m relates to the delayed Phase 4 of New Council Housing which while not in delivery is forecasting a significant overspend over all years on the initial budget estimate if progressed.

	Business Unit	Board	FY Budget	FY variance on budget	Explanation
4.1	New Build Coun Hsg Ph 4a	HOUSING GROWTH	8,269	(7,911)	**OVERSPEND / REPROFILE** - Due to substantially increased costs based on original tender returns requiring an overall additional £7.2m, final contract award is not now expected until November 2019. Therefore, overall project budget requires re profile. Further meetings to be held to identify key reasons for variations.
4.2	Waste Mgt & Estate Environmentals	HOUSING INVESTMENT	1,900	(1,900)	**REPROFILE** - This relates to block allocation for works on council Housing Stock. Now not anticipated to be utilised in current year.
4.3	Clean Bus Technology	TRANSPORT	4,472	(1,800)	**SLIPPAGE** - Bus operators behind schedule on installation of technology due to supply issues. In addition Stagecoach have identified fewer eligible buses than first though, therefore requirement to invite other operators to bid.
4.4	H & S Essential Work	HOUSING INVESTMENT	1,737	(1,737)	**REPROFILE** - This relates to block allocation for works on council Housing Stock. Now not anticipated to be utilised in current year.
4.5	Other Essential Work	HOUSING INVESTMENT	1,500	(1,500)	**REPROFILE** - This relates to block allocation for works on council Housing Stock. Now not anticipated to be utilised in current year.
4.6	Communal Areas Investment	HOUSING INVESTMENT	1,392	(1,392)	**REPROFILE** - This relates to block allocation for works on council Housing Stock. Now not anticipated to be utilised in current year.
4.7	Grey 2 Green Ph2	ECONOMIC GROWTH	4,824	(1,121)	**SLIPPAGE** - Variation between current full year budget and latest outturn forecast due to slippage associated with programme delays. Also, the contractor's original cashflow has proven to be innaccurate and contract payments to date have been less than anticipated.
4.8	New Build Council Hsg Phase 2	HOUSING GROWTH	5,377	(900)	**SLIPPAGE** - The start on site slipped compared to the budget profile due to waiting for statutory approvals to start. A further delay of potentially 3 months has been worked into the forecast but further re-profile needed and funding mix will change. To be done as part of the December Review.
4.9	Hoc Ii Infrastructure & Pr	HEART OF THE CITY II	2,082	(850)	**REPROFILE** - Allocation for infrastructure works associated to HOCII scheme. Re-phasing of overall scheme resulting in further re-profiling of these costs into future years.
4.10	New Build Coun Hsg Ph 4b	HOUSING GROWTH	664	(609)	**OVERSPEND / REPROFILE** - Due to substantially increased costs based on original tender returns requiring an overall additional £0.24m, final contract award is not now expected until November 2019. Therefore, overall project budget requires re profile. Further meetings to be held to identify key reasons for variations.
	Total		32,217	(19,719)	

5 - Top 10 Forecast Overspends over Full Year Budget

The table below indicates that of the current major in year forecast spends above budget only 3 items represent genuine overspends, however funding is available from the Schools' Condition Allocation and HRA respectively to cover these.

	Business Unit	Board	FY Budget	FY variance on budget	Explanation
5.1	Electrical Strategy	HOUSING INVESTMENT	7,958	1,308	**ACCELERATION -** no budget variations are to be made presently until we have reviewed progress against the plan. However the plan is to overspend the budget in 19-20 by allowing Wates to maintain their current progress and finish the contract early and for Kier spend their planned outputs and spend in 19-20 and not to be affected by the Wates decision.
5.2	Disabled Grants	PEOPLE CAPITAL & GROWTH	1,864	884	**ACCELERATION -** Review of overall use of Disabled Facilities grant ongoing. Sufficient funds exist to cover expenditure. Budget variation brought for endorsement awaiting approval.
5.3	High Value Equipment (dfg)	PEOPLE CAPITAL & GROWTH	-	500	**ACCELERATION -** Review of overall use of Disabled Facilities grant ongoing. Sufficient funds exist to cover expenditure. Budget variation brought for endorsement awaiting approval.
5.4	Mechanical Reactive	PEOPLE CAPITAL & GROWTH	-	121	**OVERSPEND -** This business unit holds costs for reactive works to Schools estate, however no formal budget has yet been requested. Approval needs to be requested from People Capital and Growth Board
5.5	Don Valley School	PEOPLE CAPITAL & GROWTH	12	85	**ACCELERATION -** Remaining budget for IT equipment only. Expenditure on this occuring earlier than originally forecast.
5.6	Communal Areas-low Rise Flats	HOUSING INVESTMENT	450	77	**OVERSPEND** 1. Final retention amounts due for payment before March 2020 have advised by Cost Manager and included in forecast. 2. Further charges are expected as a result of door entry issues and electrical issues, for which meetings are currently taking place. 3. Final costs for approved Going Local projects are to determined. When final costs for 2 and 3 are known a more accurate out-turn figure for the year can be given. This is expected to be in excess of the current year budget and draw down will be made from block allocation.
5.7	Sprinklers - Fire Safety	HOUSING INVESTMENT	-	61	**OVERSPEND -** Costs to be reviewed by service and to be re-allocated as appropriate or budget authorisation requested.
5.8	Prow 19-20	TRANSPORT	82	58	**ACCELERATION - No reasons provided**
5.9	Srq - Strategic Dev Partner	HEART OF THE CITY II	708	54	**ACCELERATION**- No overall overspend forecast.
5.10	Sheffield Retail Quarter 2	HEART OF THE CITY II	747	53	**ACCELERATION**- No overall overspend forecast.
	Total		11,821	3,201	

6 - Key Issues and Risks

Key Issues

- **Upper Don Valley Flood Alleviation Scheme -** Confirmation now received that SCR have agreed slippage of funding for scheme removing potential funding risk.

- **Housing Right To Buy 1-4-1 Receipts -** Buffer before repayment of 1-4-1 receipts is required is narrowing. Between £4.3m and £4.9m eligible expenditure per quarter on new council housing must be incurred in 2020/21 to avoid pay back of unused receipts at a penalty rate of interest. Plans are in place to achieve this, but will require careful monitoring.

Key Risks

- **Broadfield Road -** CPO issue now resolved. Political support confirmed. Verbal OK given from DfT re: slippage of funding, written confirmation of this now required.

Changes to the Corporate Risk Register As at 30th September 2019

1. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. This was published alongside the 2019/20 Revenue Budget[1].

2. The following paragraphs contain significant amendments to that version.

3. The following has been added as a new risk, within the 'Corporate Risks' section.

Sheffield City Trust

i. Sheffield City Trust (SCT) runs the Major Sporting Facilities (Ponds Forge, Hillsborough Leisure Centre and the FlyDSA Arena) and a number of other venues in Sheffield (City Hall, smaller leisure centres and golf courses) via its operating subsidiary Sheffield International Venues (SIV).

ii. The Council has faced almost 10 years of austerity, with significant funding cuts and a consequent increase in the maintenance backlog across the Council's asset base, including the Council-owned facilities that are leased to SCT. In 2018 a 6 year business plan was received from SCT that proposed a zero subsidy by 19/20. This proposal was agreed by the Council, but has not been achieved to date by SCT.

iii. In late June 2019 SCT requested, and was given, a cash-flow loan of £1.0m from the Council to alleviate a cash shortfall, and to avoid any risk of default on the bond that was used to finance the MSF. In July 2019 the Council commissioned Grant Thornton to report on SCT's cash position.

iv. Deficits at SCT have averaged £2.8m (excluding SCC subsidy) over the last few years and are expected to continue at this level. Consequently the main body of this report recommends that up to £2.8m of revenue subsidy is made available to SCT this financial year. The subsidy will be by way of grant funding under the existing contractual arrangements. In addition, there is a funding need for backlog maintenance, and cash flow fluctuations that may need to be supported. Payments in respect of these items have been included in the Council's 2020/21 budget process, so no additional funding is required to be found at this stage.

v. The existing relationship with SCT may naturally come to an end in 2024 with the end of the MSF debt. However, the process is not simple with a number of transactions that will need to be completed. It is also clear that the best outcome will require the Council and SCT to work together in partnership.

[1] Available at Sheffield.gov.uk for the Revenue Budget Book, Appendix 5 of Item 8 of March Council 2019.

vi. Consequently there are a number of risks around the future financial position of SCT, and around the level of funding required to support future sporting and leisure facilities within the City. These risks will be considered and mitigated by longer-term planning for leisure facilities within the City.

4. The Capital Programme Risks relating to Housing Growth and Heart of the City II have been more extensively reviewed, and re-produced in entirety below.

Capital Programme Risks

Housing Growth

i. There is a risk to delivering the full scope of major schemes such as private sector 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 Community Infrastructure Levy which along with capital receipts form a key element of the Corporate Investment Fund. Any reduction in these funding streams will limit the Council’s investment capacity.

ii. It is now anticipated that New Homes Bonus funding (central Government funding to incentivise house building) will not continue beyond 2020/21. This funding stream was also a key element of the Corporate Investment Fund and could therefore negatively impact on the council’s investment capacity.

Heart Of the City 2

iii. The route for delivery of the remainder of the Heart of the City2 (HoC2) programme is now being done on an incremental measured block by block basis, 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.

iv. The Council has committed significant funding for the delivery of the HoC2. This is made up of a number of phases:

(a) £62m - To acquire land and carry out initial feasibility work

(b) £27m - For the appointed development manager to take forward the pre-construction phases of the scheme.

(c) £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 the remaining office, retail and F&B units.

(d) £35m - For the development of blocks B & C of the scheme. These blocks are being built speculatively and so the Council carries the letting risk for the Office, Residential and Retail space being created.

(e) £63m – For the development of block H. The block is being sub divided to deliver a food hall and separate office building. A food hall operator will be secured before construction costs are committed. In addition the construction appointment will be split into two distinct phases so that the office building and food hall could be delivered to different programmes as required to meet market demand if necessary.

v. There are a further blocks (A, G, I) which are at design review stage.

vi. 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 and to reflect on Council priorities such as the Climate Emergency.

vii. Creating confidence in the City through the successful delivery and letting of the early phases, stimulates more market interest in the later phases and where appropriate third party development may be considered for some blocks.

viii. 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.

ix. 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 effects of Brexit.

x. 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.

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Revenue Implications of Treasury

Purpose of the Report

1. The purpose of this report is to summarise the Treasury Management position for the period to 30th September 2019 and the potential implications for revenue budgets.

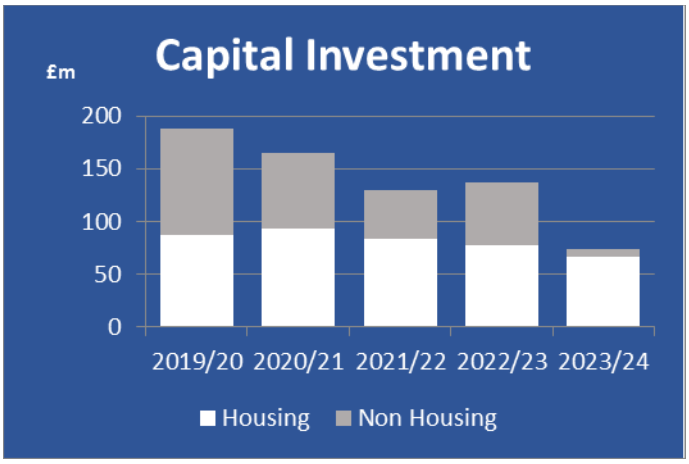
2. In addition, Appendix 1 sets out Indicators not already covered in the main report but are required to satisfy the Council's Prudential Code and Treasury Management Code of Practice obligations.

Capital Investment & Funding

3. The Council continues to deliver significant capital investment across the city which will provide improved facilities and infrastructure and supports the local economy, whilst ensuring the impact on debt costs within the revenue budget is effectively managed

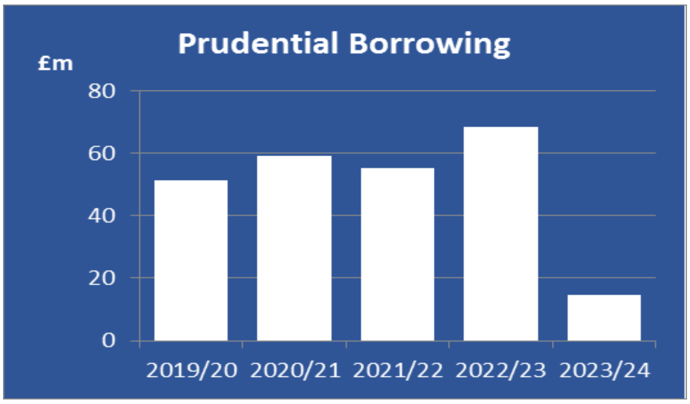
4. As at 31st August 2019, the approved capital budget, for the period from 2019/20 through to 2023/24, totals £696.5m (a full breakdown is shown in Appendix A).

5. The split of this planned investment across housing and non-housing is shown in the graph below:-



6. The proportion of this investment funded by prudential borrowing over this period will be £249m. On this basis, approximately 36% of the capital expenditure planned for the next four years is being funded by Prudential Borrowing – with a substantial proportion of this being Heart of the City II.

7. The following graph shows how this element of funding varies over the five year period.



8. It is anticipated that elements of the HotC II programme, which forms a substantial proportion of the Prudential Borrowing, will be subsequently sold to developers and this will reduce the prudential borrowing and interest charges. Also, within the overall prudential borrowing figure (£249m), £35m relates to Housing activity which is covered by the HRA business plan.

9. However, by the end of this period if the full amount of prudential borrowing had been incurred and not recovered from future sales, this would result in

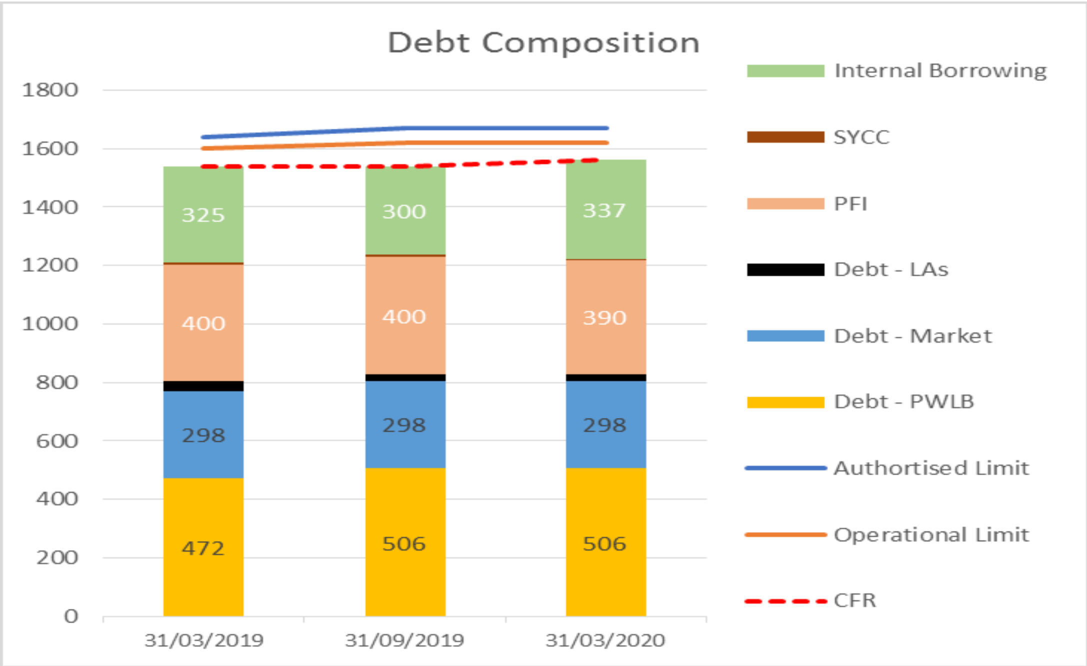
   a. an additional £6.85m pa in interest costs (at an estimated rate of circa 2.75% - including the increased certainty rate margin imposed by HMT) and
   b. a further £5.4m pa in Minimum Revenue Provision (assuming an average 40 year asset life and excluding £35m worth of HRA prudential borrowing in the 21/22 to 23/24 period)

10. The latest projected capital expenditure estimates for 2019/20 compared to the original budget position shows that Prudential Borrowing in 2019/20 is projected to fall from £44.3m, to £37.6m. This will result in a reduction in revenue costs arising from this capital investment; as shown in the table below:-

Estimated Additional Revenue Costs	Revised £k	Original £k	Variance £k
Interest Costs (@ 2.75%)	£1, 034	£1,218	(£184)
MRP Costs (assuming a 40 year asset life)	£940	£1,108	(£168)
Total of estimate of additional revenue costs	**£1,974**	**£2,326**	**(£352)**

Update on Debt

Current Debt Composition



11. The above table shows:-

   a. The Council is primarily using a substantial proportion of its own internally generated cash resources to fund capital expenditure, rather than taking external borrowing.
   b. This approach is taken because we pay around 1.5%-2.0% p.a. more to borrow externally than we do receive on any cash we invest. This report assumes that we continue to with this approach at the same level in 19/20. We continue to review this approach regularly.
   c. We took two £20m tranches of PWLB borrowing in late August/early Sept to benefit from a dip in rates and gain the benefit of low interest rates over the longer term but accept the cost of carry in the short term.
   d. The level of internal borrowing is a mixture of general fund (£239m) and HRA (£61m) which is not untypically high but produces a risk that future external borrowing to reduce this level of internal borrowing may be at a higher rate than can be currently obtained from the market.
   e. The Council is expected to maintain a moderate amount of borrowing capacity, over and above its current/forecast CFR when compared to the Operational Boundary
   f. In addition to that, there is further headroom of circa £40m before it reaches the maximum level currently authorised by Full Council.
   g. The HRA CFR is £346m – which is £79m below the authorised limit and £42m below the operational limit (that was set at the previous HRA debt cap level).

Strategy Update

12. There are no proposed changes to:-

   a. Treasury Management Strategy Statement
   b. Annual Investment Strategy
   c. Minimum Revenue Provision Policy

d. Either the Operational or Authorised Borrowing Limits

13. The 2019/20 Treasury Management Strategy Statement (TMSS) set out plans to borrow an additional £61.9m mainly to fund in-year prudential borrowing (at the original budgeted level).

14. So far this financial year:-

a. £5.5m of PWLB borrowing and £9m of other borrowing has been repaid to date – no further borrowing to be repaid this financial year. Of the total repaid, £5.2m related to the HRA.
b. £40m worth of new PWLB borrowing has been taken in late August/early Sept at average rate of 1.74%. The delay in borrowing and the lower rates involved generating in year revenue savings.
c. Only limited further borrowing is anticipated during this financial year so internal borrowing is expected to increase – albeit modestly.
d. In terms of the HRA, no borrowing has been undertaken to date and no borrowing is anticipated in this financial year.

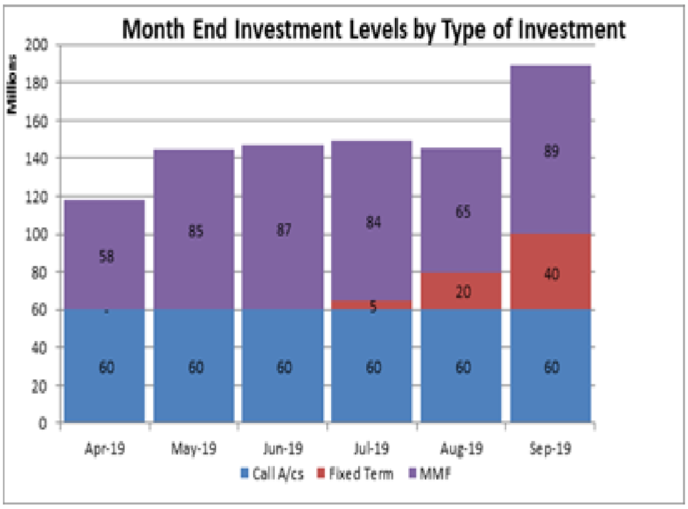
Rescheduling

15. No rescheduling of any of our borrowing has been undertaken. Whilst we will keep this position under review, currently the cost of rescheduling exceeds the benefits of doing so, despite the previously cheap borrowing levels.

Update on Investments

Investment Balances, Level of Return and a breakdown by Counterparty

	Average Balance	Average Return
April	£151.2m	0.86%
May	£134.4m	0.91%
June	£147.4m	0.89%
July	£167.8m	0.86%
August	£152.5m	0.85%
September	£165.2m	0.86%
YTD	**£154.8m**	**0.87%**



16. This table shows:-

a. Investment balances remain at a high level and have been bolstered by the additional borrowing undertaken in August/September.
b. Balances are expected to reduce gradually over the remainder of the year but mainly in Q4.
c. Average returns are above our benchmark level – set at the UK Base Rate (0.75%) – improving investment returns against budgeted expectations.
d. A substantial proportion of investment balances are with highly diverse, AAA rated, money market funds offering ready access to funds.

e. The Council has also invested in a range of 95 day call accounts which offer improved returns but require notice to be given to be withdrawn. £20m invested with other Local Authorities to lock into current rates to reduce impact of possible cut in the UK base rate.

Future Direction

17. On a balance of risks, interest rates are not anticipated to change significantly in the short term – although there may be substantial volatility as a result of on-going Brexit negotiations.

18. On this basis, the Council will maintain a mix of investment balances to ensure ready access to funds and where possible benefit from locking away funds for a short duration.

19. There are currently no proposals for the Council to invest sums for periods longer than 365 days.

Revenue

Treasury Management Budget

As at September 2019	Forecast £m	Budget £m	Variance £m
Interest Costs (net of HRA recharge)	21.8	24.2	(2.4)
MRP Costs	15.4	17.4	(2.0)
Debt Management Costs	0.5	0.4	(0.1)
Gross Cost	**37.7**	**42.0**	**(4.5)**
Less Investment/Other Income	(0.7)	(0.4)	(0.3)
Less Internal Recharges*	(5.3)	(8.3)	3.0
Net Cost	**31.7**	**33.3**	**(1.6)**

** Internal recharges includes prudential borrowing costs (interest) recharged to services and debt management cost recharged to General Fund and HRA*

20. The above table shows:

a. Net Costs are forecast to underspend compared to budget – as a result of
   i. interest savings arising from deferring borrowing,
   ii. lower MRP costs based on underspend against the 2018/19 capital programme but also;
   iii. lower recharges following the Cavendish building becoming operational and no longer subject to the capitalisation of interest that occurs during the development phase (as part of the agreed policy for HotC II developments).

Financing Costs to Net Revenue Streams

	2018/19 £m (actual)	2019/20 £m	2020/21 £m	2022/23 £m	2023/24 £m
Capital Financing Costs*	36.7	38.2	39.9	36.7	36.3
Net Revenue Streams**	463.7	473.8	482.2	479.9	490.7
Ratio	**7.91%**	**8.05%**	**8.28%**	**7.64%**	**7.40%**

* *Excluding PFI financing costs and associated grants but includes MRP charges made to services but not included in the treasury management budget*

*** Net revenue streams are higher than the Council's Net Revenue Budget (of £403m in 2019/20) as they include a number of specific grants which are treated as reducing net expenditure in the Net Revenue Budget*

21. The above table shows:

    a. Financing costs generally increase over the period to 2020/21 and are then projected to fall –when the debt costs for ex-South Yorkshire County Council debt are finally fully repaid.
    b. Please note that the capital programme projections become less accurate the further forward the projection period is, and therefore financing costs may increase if the amount or proportion of the capital programme in 22/23 to 23/24 funded by prudential borrowing increases.
    c. Net Revenue Streams fluctuate because one off grants and the forecast release of Collection Fund surpluses fall out in 21/22.

Risk Assessment

22. The principal risks associated with treasury management are:

Risk	Mitigation
Loss of investments as a result of a failure of a counterparty	Application of Annual Investment Strategy in relation to choice of counterparty/investment type, level of investment and monitoring of credit ratings.
Increase in net borrowing costs due to an increase in borrowing costs and/or a decrease in investment returns	Planning and undertaking borrowing in light of interest rate trends/forecasts. Borrowing using fixed rate loans to limit volatility of interest costs
Interest rates risk significantly, increasing the cost of servicing new borrowing	Forecasting reserves that support the current borrowing position alongside borrowing needs to ensure measures to address internal borrowing can be undertaken in a planned and measured way
Fraud	Strong internal controls – with dual stage authorisation for any out-going payments

Other Matters

Compliance

23. The Section 151 Officer confirms compliance with the approved TMSS for 2019/20 and that a prudent investment approach has been followed with priority given to the security and the liquidity of amounts invested over the yield we receive.

24. The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

Annex 1 – Prudential and Treasury Management Indicators

25. This annex covers the prudential and treasury management indicators not already covered in the body of the main report but are required under the Prudential Code or the Treasury Management Code of Practice.

Capital Programme and Funding

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	**Total £m**
Non Housing	102.1	72.3	46.2	59.8	7.0	287.3
Housing	87.1	93.7	83.9	77.3	67.2	409.2
Total	189.2	166.0	130.0	137.1	74.2	696.5
Capital Receipts	27.9	11.7	3.2	3.3	1.1	47.2
Capital Grants & Contributions	54.6	13.6	6.7	4.1	0.9	79.9
Revenue Contributions	55.5	81.4	64.7	61.3	57.6	320.4
Prudential Borrowing	51.1	59.3	55.4	68.4	14.7	249.0
Total	189.2	166.0	130.0	137.1	74.2	696.5

Breakdown of Capital Expenditure

Capital Expenditure	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**Total**
Economic Growth	12.7	4.6	1.2	0.0	0.0	18.5
Housing Investment	50.7	63.4	57.7	57.2	57.3	286.3
Housing Growth	36.5	30.4	26.2	20.1	9.9	123.1
Quality of Life	16.0	15.8	17.6	35.3	0.3	85.0
Transport	15.1	3.5	-	-	-	18.6
People Capital & Growth	13.4	2.3	2.5	2.2	-	20.4
Internal Infrastructure	44.8	46.2	24.9	22.3	6.7	144.9
TOTAL	189.2	166.0	130.0	137.1	74.2	696.5

Movement in Capital Financing Requirement

Capital Financing Requirement (CFR)	**Per TMSS £m**	**Forecast £m**
CFR - General Fund CFR	1,220	1,215
CFR - Housing Revenue Account	346	346
TOTAL	1,566	1,561
Borrowing	890	828
Other Long Term Liabilities	390	390
Forecast - Total Debt as at 31 March 2020	**1,280**	**1,218**

Authorised and Operational Borrowing Limits

Authorised and Operational Limits on Debt	Per TMS £m	Forecast £m
Authorised Limit	1,670	1,670
Operational Boundary	1,620	1,620
Projected Year End Capital Financing Requirement	1,566	1,561
Headroom to Operational Boundary	54	59
Headroom to Authorised Borrowing Limit	104	109

Interest Rate Forecast

26. The Council's treasury advisor, Link Asset Services, has provided the following forecast – prior to the HMT announcement on the revised margin above gilt rates (see the PWLB point below):

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

27. The above forecasts have been based on an assumption that there is some sort of 'muddle through' to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

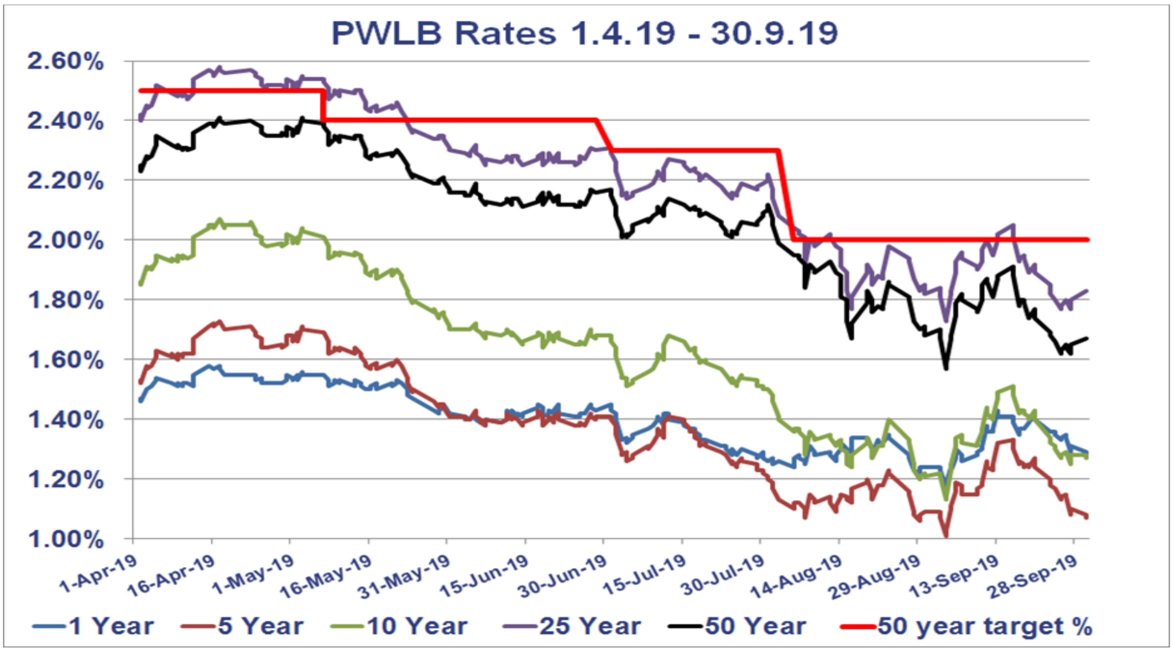
PWLB

28. On the 9th October, HM Treasury informed Authorities that the fixed margin above the Government's cost of borrowing (gilt rates) would be increased by 100 basis points overnight – taking the margin to 180bps.

29. This pushed the available PWLB rate for 50 year borrowing from 1.62% to 2.62% overnight; and returning borrowing levels to levels that were last available in 2018. Whilst these are still relatively low in historical terms, the additional margin adds a considerable burden on any new borrowing the Authority wishes to undertake.

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

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%



31. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period. However, with the change in margin applied by the Debt Management Office, rates have now returned to 2018 levels.

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