May 2023

MONTH 12
OUTTURN REPORT

Capital · 2022/23

Sheffield
City Council

1 INTRODUCTION

A succinct summary of the report content and conclusions

1.1 Purpose of report

Capital spending pays for the creation of 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.

We monitor capital expenditure by Policy Committee:

- Adult Health & Social Care
- Economic Development & Skills
- Education, Children & Families
- Housing
- Communities, Parks & Leisure
- Transport, Regeneration & Climate Change
- Waste & Street Scene
- Strategy & Resources

Further details on the capital spending priorities of each of these Committees are contained in our Capital Strategy which is refreshed each year.

In March 2022, the then 'Co-Operative Executive' approved a capital programme budget for the financial year 2022/23. We regularly report on Capital Programme Performance at the Strategy & Resources Committee. This Outturn Report sets out the overall position on how we delivered against the 2022/23 approved budget, including:

- levels of actual spend that occurred throughout 2022/23 (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).

The Capital Programme operates on a different basis to revenue budgets. It comprises individual projects which come forward throughout the year. Capital projects are not tied to financial years; the value of the Programme is constantly shifting as projects complete and new funding is secured and brought forward with new projects. Capital reporting is a snapshot in time – unlike revenue budgets which are set at the start of the year and are tied to an annual budgeting cycle. This report is therefore a snapshot of performance at month 12 – the end of March 2023.

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

1.2 Headline conclusions

Over the period April 2022 to March 2023, we spent almost £200m on capital projects to improve our City and the lives of our residents.

This is against a challenging backdrop.

Over recent years, we have unfortunately become accustomed to seeing news headlines of high inflation and supply chain issues. It is no surprise that Sheffield City Council is not immune from these pressures. The Council faces considerable budget challenges as it wrestles with increasing costs and demands. Our capital spend has faced considerable pressures.

Throughout the pandemic, the Council 'kept the wheels turning', ensuring a decent throughput of work to support our local economy – both contractors and suppliers. But we now face a new set of challenges as we deal with the highest levels of inflation for a generation and the impacts of the war in Ukraine.

We remain hopeful that inflation and supply chain issues will begin to recede over the current financial year. In the meantime, we will work across the Council (and with our wider supply chain) to drive value for money and deliver projects on time.

1.3 A challenging context

In common with other local authorities across the region – and indeed the UK – we are witnessing significant increases in tender prices. This not only affects the affordability of capital schemes (as tender prices often exceed the available budget), but also our ability to 'get money out of the door'. High tender prices result in delays whilst further funding is sought or schemes are 'value engineered' – i.e. cut - to meet the budget. This causes 'slippage' on our capital programme, where our anticipated delivery timetable 'slips', often due to factors outside our control.

The biggest issue we face is the high level of construction inflation, which impacts on the affordability and deliverability of schemes. This is caused by several factors:

- **Supply chain issues**

  We've seen sharp rises in some material prices – in some cases over 50% - with many items in very short supply with long lead-in times. This makes it difficult for contractors to submit tender prices, as the price of materials may increase unexpectedly between submitting a tender and requiring materials on site. There is then a risk that prices are inflated to cover this risk – or that tenderers are unwilling to hold their tenders open for 90 days whilst they are evaluated.

- **Labour market issues**

  There is a well-publicised shortage of labour in the construction market. Whilst we are redoubling our efforts to promote apprenticeships and trainees and upskill the workforce of Sheffield and the wider region (both in-house and through our contracting activity), this is a national issue which will take years to address.

- **High levels of demand**

  As the impact of Covid-19 diminished, the level of construction activity rebounded. This compounded the impacts of high inflation, supply chain challenges and labour supply. Contractors can afford to be selective about which opportunities they tender for, which reduces competition. Principal contractors struggle to find subcontractors who will commit to potential projects months in advance – in case more lucrative opportunities arise in the meantime. So they price this element of risk into their tenders.

- **It's a vicious circle**

  All the above factors feed each other, creating an immensely challenging backdrop to deliver capital projects on time and on budget.

We've worked hard to mitigate the effects of this. Increasing our levels of contingency and being realistic about what can be delivered within budget has enabled us to keep spend moving and deliver new projects for Sheffield people. We've focused our efforts on forecasting, trying to ensure this is as realistic as possible to minimise unwanted surprises. And we've changed how we procure some projects in response to the changing market. Sections 7 and 8 of this document provide further details.

1.4 How we performed

At Month 12, we spent almost £200m of capital monies against a budget of £240m.

Whilst there continues to be slippage on the capital programme, there has been an improvement in our performance - from 30.1% slippage in 2021/22 down to 21.8% last year. We have maintained our clear 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 timely strategic decisions rather than failure of delivery. Use of this analysis will continue alongside our continued monitoring and critical challenge of unrealistic budget profiles. We want to deliver a robust capital budget with minimal variances, even in these challenging times.

The good news is that the great majority of slippage is accounted for by a small number of projects with relatively high levels of slippage, which were largely beyond our control. These are set out later at section 3.2. This gives us – and Sheffield people - reassurance of our ability to spend money 'to profile' - how we expected we would for a clear majority of projects.

But there is no room for complacency. The Council will continue to make ongoing improvements to its processes and governance to minimise slippage in the capital programme. More work needs to be done to improve the accuracy of our forecasting. 2023/24 is likely to remain challenging for us. We will continue to work effectively across the city – and wider region – to continue to maximise our impact on Sheffield's recovery and make a real difference to Sheffield people's lives.

2 KEY FACTS

Key high-level budget and expenditure information: Quarter 4

2.1 Budget and expenditure headlines

(a)	Approved capital programme budget for 2022/23 at 31 March 2022 (Month 1)	£332.8m
(b)	Approved capital programme budget for 2022/23 at 31 January 2023 (Month 10) – the latest report to committee	£244.7m
(c)	Approved capital programme budget for 2022/23 at 31 March 2023 (Month 12)	£240.3m
(d)	Actual expenditure against the revised budget of £240.3m	£190.6m

2.2 Reasons for budget changes between Month 8 (b) and Month 12 (c) [Quarter 4]

These approved capital budgets were reduced by £4.4m between the end of January 2023 and March 2023:

		2022/23
(b)	Month 10 approved budget	£244.7m
(e)	Reprofiling	-£8.4m
(f)	Slippage	-£0.1m
(g)	Additions	+£2.5m
(h)	Variations	+£1.6m
(c)	Month 12 approved budget	£240.3m

The key projects and programmes which had in-year budget changes at (e) to (h) above (and were approved by Strategy and Resources Committee by March 2023) are:

Reprofiling (e)		**Slippage (f)**		**Additions (g)**		**Variations (h)**	
Reprofile of purchase payment for New Council Housing at Corker Bottom	-£3.8m	Slippage on Hemsworth OPIL costs	-£0.1m	Inclusion of Local Authority Housing Fund Budget	+£1.9m	Annualised capital interest - Heart of the City II	+2.9m
Reprofile of purchase payment for Handsworth General Needs Council Housing	-£4.3m			Inclusion of Sheaf / Porter Flood Defence scheme	+£0.3m	Accounting adjustments re: Regional Homes & Loans works	-£0.9m
Reprofile of Mather Road Park Improvements	-£0.2m					Underspend on Local Authority Decarbonisation Grant	-£0.7m

Further details on the reasons for these changes are set out at sections 3-5 overleaf.

3 PERFORMANCE BY POLICY COMMITTEE AREA

A summary of expenditure against budget at Month 12

3.1 Year-end net slippage figures

The overall outturn of expenditure against the Month 12 approved budget of £240.3m was £190.6m. 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 £34.8m. This represents 15% of the approved Month 12 budget which is identical to the position at year-end 2021/22.

Portfolio	Approved Expenditure Budget	Expenditure 31/03/23 (Qtier)	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpend	Internal Adjusment	Percentage Year End Net Slippage
ADULT HEALTH & SOCIAL CARE	6,797,399	8,063,940	(1,266,541)	-	-	-	(2,993,029)	1,726,488	-	0%
COMMUNITIES PARKS & LEISURE	25,215,864	21,426,924	3,788,939	3,790,587	48,288	(63,270)	(16,136)	29,469	1	15%
ECONOMIC DEVELOPMENT & SKILLS	2,957,105	421,323	2,535,782	2,144,546	391,236	-	-	-	-	73%
EDUCATION CHILDREN & FAMILIES	21,632,146	13,643,400	7,988,746	5,590,790	3,012,046	(574,096)	(125,941)	85,948	-	23%
HOUSING	64,745,160	57,476,977	7,268,183	4,881,983	4,745,742	(2,596,101)	(331,553)	381,692	186,420	4%
STRATEGY & RESOURCES	6,529,416	4,996,436	1,532,980	1,376,926	138,816	-	(50,974)	68,212	-	21%
TRANSPORT REGEN & CLIMATE CHANGE	111,540,809	84,486,040	27,054,770	20,087,478	10,349,355	(474,777)	(88,372)	263,396	(3,082,311)	18%
WASTE & STREET SCENE	860,666	108,462	752,204	751,978	-	-	-	226	-	87%
GRAND TOTAL	**240,278,565**	**190,623,501**	**49,655,063**	**38,624,287**	**18,685,482**	**(3,708,244)**	**(3,606,003)**	**2,555,432**	**(2,895,890)**	15%

The highest levels of year-end net slippage by **percentage of programme value** were:

Waste & Street Scene (87%)	• Delay to delivery of City Centre Safety Works – Norfolk Row (£0.6m)
Economic Development & Skills (73%)	• Slippage on the overall programme of works in relation to Stocksbridge Towns Fund while confirmation of funding was awaited. Key scheme being Community Hub (£1.7m)

The highest levels of year-end net slippage by **absolute value** were:

Transport, Regeneration & Climate Change (£19.6m)	• Delays across Heart Of The City programme sue to site issues (£8.1m) • Delays on Future High Streets Fund Programme due to funding issues (£3.4m) • Slippage on Transforming Cities transport programme (£2.1m). • Slippage on CAZ Implementation spend (£1m) • Slippage on Broadfield Road Junction Scheme (£0.9m)
Education, Children & Families (£4.9m)	• Delays to commencement of South West Schools Expansion schemes (£4.1m) • Delays to Internal Door Replacement Scheme at Aldine House (£0.5m)
Communities Parks & Leisure (£3.7m)	• Delays to Woodbourn Football Hub scheme due to legal issues (£2.1m) • Delays to General Cemetery Restoration Scheme due to resequencing of works (£0.9m) • Delays to Ecclesfield Park Improvements due to contractor capacity issues (£0.2m) • Delays to Parkwood Springs Active Park Scheme due to adverse weather (£0.1m)

3.2 Overspends

The vast majority of overspends were either funded from External Grants or contributions, or were ‘netted-off’ by underspends elsewhere in the programme. These therefore did not require additional support from the Council’s resources.

The overspend identified in the Adult Health & Social Care of almost £3m was largely driven by the Accelerated Adaptations grants element of the Disabled Facilities Grant (DFG) funded expenditure. This was partly because of changes to the Private Sector Housing Policy, giving more flexibility on the use of this government funding. We also continued to make headway in tackling the backlog of works caused by the Covid-19 pandemic. However, this was also partly offset by underspending in other areas of DFG funded expenditure (see below).

3.3 Underspends

In Adult Health & Social Care, £1.1m related to expenditure due to be funded by the Disabled Facilities Top Up Grant. This is largely reflective of the shift towards delivery of works through the more flexible Accelerated Adaptations Grant process (and away from the mandatory Disabled Facilities Grant process).

In Housing, the main underspend related to the Local Authority Decarbonisation Scheme Private Sector works. This reflects our success in securing additional grant funding to deliver the scheme.

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.

Scheme Title	Approved Expenditure Budget	Integra Expenditure 31/03/22 (Qtier)	Variance	Slippage	Reprofile	UnderSpend	Internal Adjusment	Comments
KING ECGBERTS SCHOOL EXPANSION	3,873,557	420,230	3,453,326	3,453,326	-	-	-	Extended tender period caused by planning conditions and survey results followed by the need for Value Engineering caused delays to start on site. Subsequently lost 5 weeks since starting on site due to unforeseen ground conditions by way of significant buried structures. Planned completion date to 8th January 2024.
HEART OF THE CITY BLOCK A PALATINE CHAMBERS	18,785,939	15,575,146	3,210,793	3,210,793	-	-	-	Construction delays to both the Hotel and Gaumont building have resulted in considerable slippage The Hotel element has seen the completion date slip from September 2023 to Jan/Feb 2024 based on current forecasts. Gaumont building element forecast completion was Sep-23, now Dec-23. Delays in commencing works to the façade due to planning and lead-in challenges have resulted in a delay to these works and associated expenditure
FUTURE HIGH STREETS FUND PUBLIC REALM & INFRASTRUCTURE	3,580,047	887,773	2,692,274	2,692,274	-	-	-	Award of second phase of contract (delivery) has slipped due to design delay, requirement for additional funding and change control process with funder. Spend reprofiled to match contract period.
WOODBOURN RD FOOTBALL HUB	2,173,584	85,909	2,087,676	1,078,691	-	-	1,008,985	Legal issues with the Deed, Heads of Terms, and the Lease has delayed being able to sign off the grant on both SCC and Football Foundation's side. Reaching agreement on the Deed, side letter and the heads of terms we have in place with SHU, has taken 6 months of negotiations between SCC, our external lawyers, property services, SHU, Football Foundation and the National Football Trust and their legal representatives
HEART OF THE CITY BLOCK H HENRYS BLOCK	28,884,220	26,949,002	1,935,217	1,935,217	-	-	-	Considerable delays on site have seen the completion date slip from July 2023 to October 2023 based on current forecasts. Delays are due to post-contract change (tenant works, Carver St), statutory delays (NPG) and primarily contractor performance in a challenging market; all resulting in an obvious reduction in productivity and expenditure in the period. The end of this financial year should have seen activity and expenditure at close to its highest point (£1.8m-£2.25m) per month based on the original programme; this reduced productivity has seen payments drop to ~£1.4m average in the final three months of the year, with increased payments now anticipated in the first quarter of FY23/24.
WEST BAR COMPULOSRY PURCHASE SCHEME	1,764,771	-	1,764,771	-	1,764,771	-	-	Negotiations around CPOs ongoing
SOCKSBRIDGE TOWNS FUND MANCHESTER RD HUB	1,901,509	168,964	1,732,545	1,732,545	-	-	-	Slippage is due to delayed acquisition of properties / surveys costs, legal and other fees now forecast to be spent next financial year as construction works are now due to start in autumn 2023
BROWNFIELD SITES ACQUISITIONS	6,043,215	4,316,100	1,727,115	-	4,760,668	-	(3,033,553)	Not all expected purchases proceeded in year. Grant funding was also obtained for some of the acquisitions. Corporate Resources allocated to the scheme have therefore been reprofiled into future years.
NEW BUILD COUNCIL HOUSING NEWSTEAD ENABLING WORKS	4,417,604	2,938,943	1,478,661	-	1,478,661	-	-	Enabling phase works now complete, final account to be agreed. Waiting a decision on the second phase of work. . Unspent funds to be carried into next financial year for use on the second phase when a decision has been made.
ASTREA ACADEMY - SPORTS PITCH	1,181,282	2,031	1,179,251	-	1,179,251	-	-	Scheme put on hold as a result of updated cost plan increasing current estimated project cost.
	72,605,728	**51,344,098**	**21,261,630**	**14,102,846**	**9,183,351**	**-**	**(2,024,568)**	

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.

Committee Area	Scheme Title	Approved Expenditure Budget	Integra Expenditure 31/03/22 (Qtier)	Variance	Accelerated Spend	Overspend	Internal Adjusment	Comments
ADULT HEALTH & SOCIAL CARE	ACCELERATED ADAPTATIONS GRANT	2,229,800	5,156,784	(2,926,984)	-	(2,926,984)	-	The majority of the overspend is due to the delivery of delayed adaptations caused by the pandemic, through use a framework we have been able to deliver an increased number of adaptations than normal staffing and processes would allow. Building and labour costs have also increased between 13 – 20%. Until September 2022 AAG discretionary limit of £10,000 was not applied due to meeting client need. From September non urgent level access showers became part of a means tested grant and then from February 2023 the discretionary limit has been restricted to £10,000. Therefore it is anticipated that this will reduce the demand on this budget.
HOUSING	SINGLE STAIRCASE TOWER BLOCKS SAFETY WORKS	6,453,905	7,169,803	(715,898)	(715,898)	-	-	The overall expenditure is more than the current approved amount due to the Contractor providing quotations for a number of variations, the value of these have been included in full The Contract Administrator has notified the client and it has been agreed that a full assessment is completed in March with a submission then made to the housing board for additional funding to complete the required work
HOUSING	COUNCIL HOUSING ROOFING REPLACEMENTS PROGRAMME	3,736,226	4,381,964	(645,738)	(645,738)	-	-	It was agreed that the Contractor for the Elementals Project would complete/finish work that had been started by the Roofing Contractor after going into administration. Work completed by the Elemental Contractor was recharged before year end and some further costs are predicted. The original estimated final account was still being agreed and therefore the original accrued amount taken was less than what came to be agreed. A final payment of £290,426.73 is expected to be paid to the Administrator for the previous Roofing Contractor at the end of April 2023.
EDUCATION, CHILDREN & FAMILIES	TALBOT-SEVEN HILLS SPECIAL EDUCATIONAL NEEDS EXPANSION	2,871,786	3,404,907	(533,120)	(533,120)	-	-	Acceleration due to unforeseen condition of the building along with additional works required and underestimated legal fees for the land transfer. Potential final cost increase to follow.
HOUSING	COUNCIL HOUSING ELECTRICAL UPGRADES PHASE 2	4,143,031	4,561,280	(418,249)	(418,249)	-	-	The current average price per property continues to be higher than the estimate average cost per dwelling based on the contract tender sum, which if this continues to be case for the duration of the project it will lead to either a decrease in the outputs that can be achieved or will require an increase in the budget for the project.
HOUSING	NEW BUILD COUNCIL HOUSING DARESBURY/BERNERS	4,650,761	5,054,059	(403,298)	(403,298)	-	-	Push to complete 10 properties at Daresbury and 6 properties at Berners to allow handover by the end of March in line with the conditions of the HE funding. This has accelerated the spend.
HOUSING	COUNCIL HOUSING ADAPTATIONS 2020-25 CONTRACT	2,964,657	3,328,426	(363,769)	(363,769)	-	-	Varaiance is due to acceleration in work and includes an uplift of 9.3% backdated to October22.
HOUSING	COUNCIL HOUSING CAPITALISED REPAIRS	501,864	738,353	(236,489)	-	(236,489)	-	Value of repairs of a capital nature higher than initially forecast. Review of ongoing value of these works underway Funded from the block allocation for Other Essential Works
TRANSPORT, REGEN & CLIMATE CHANGE	FUTURE HIGH STREETS FUND EVENTS CENTRAL BUILDING	403,605	592,952	(189,347)	(189,347)	-	-	Accelerated spend due to elements of enabling works instructed as part of the public realm works to avoid repeat work and to make use of works phasing (stats utilities works)
TRANSPORT, REGEN & CLIMATE CHANGE	HEART OF THE CITY - STRATEGIC DEVELOPMENT	818,949	1,000,670	(181,721)	(181,721)	-	-	SCC Fees higher than anticipated in 2022/23
Total		**28,774,584**	**35,389,199**	**(6,614,615)**	**(3,451,142)**	**(3,163,474)**	**-**	

Page 92

6 SLIPPAGE

A statement of slippage levels for 2022/23 and comparison against previous years

6.1 Why is slippage important?

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

- **Reputational damage** – if projects are not delivered as publicised, this can cause both internal and external damage to the Council's reputation. It means we haven't been able to deliver what we said we would do for Sheffield residents.
- **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 interest 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. This is a high risk as supply chains and working practices continue to be impacted by the fallout from Covid-19 and the war in Ukraine.
- **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.

Continually 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 residents. The current financial climate is placing unprecedented pressures on our – and our supply chain's – ability to deliver. We continue to learn from our experiences to respond with innovation and flexibility to tackle the issues we face.

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:

- **The Covid-19 pandemic** – whilst project delays due to sickness have fallen substantially, issues with the supply chain, rising costs and availability of materials are remain.
- **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 to bring a scheme back within budget. This was identified as a risk two years ago and has materialised each year since. Construction inflation is predicted to increase further. We are configuring our specifications accordingly and increasing our tender contingencies, but the risk of high tender returns – or no tender returns - remains.
- **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.

We've been taking action to tackle these issues over recent years with good success. We will continually review our performance and respond effectively to emerging threats to maximise the successful delivery of our capital programme. We've provided clear guidance for project managers in how to forecast expenditure more accurately so we are all clear on what can be delivered and when. This remains a work in progress and we will redouble our efforts to improve our performance here this year.

More detail on the actions we are taking to address these challenges is set out at section 8.

6.3 What is 'slippage'?

In 2017/18, we confirmed the definitions of 'slippage' and 're-profiling' in order to draw a clear distinction between the two – they are not the same thing. This makes it easier to understand the difference between us proactively planning and re-evaluating projects and programmes, and responding to events which blow us off course. The helps transparency and clarity when interrogating the reasons behind levels of spend which may change from those originally planned:

- **'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 several 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 to spread delivery risk, such as on Heart of the City II.

6.4 Historical position

Reducing the levels of slippage in the capital programme is always a key priority for the Council.

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. Our slippage figures are now back down to below pre-pandemic levels. This improvement has been underpinned by the introduction of the 'Gateway Process' (which introduced greater rigour and accountability to project governance), coupled with the actions we have taken at section 8 overleaf.

6.5 Our current position

We have used the methodology set out above to compare slippage in 2021/22 to 2022/23. This table summarises the breakdown between slippage and re-profiling in 2022/23, including:

- that authorised in-year as part of the regular approvals process, and
- 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 % of budget
£354m	£190.6m	42.2	34.8	77.0	21.8%
**This is the highest level of authorised expenditure at any point throughout the year, not the notional Month 1 budget*		**In-year reprofile (£m)**	**Year-end new reprofile (£m)**	**Total reprofile (£m)**	**Reprofile as % of budget**
		67.6	18.7	86.3	24.4%

Total slippage for the period 2022/23 was therefore £77.0m or 21.8%. This is an improvement on last year's 30.1% figure.

What has caused this?

The major contributory factors to the **Year End Net Slippage** and **Reprofile** figures are set out at sections 3, 4 and 5 above.

The largest contributors to the in-year reprofile and slippage figures split by Policy Committee are:

Committee	Capital Programme Element	In Year Reprofile Amount	In Year Slippage Amount
Housing	Council Housing Stock Increase Programme	£43.9m	£4.6m
Housing	Council Housing Investment Programme	£12.9m	£2.4m
Transport, Regeneration & Climate Change	Heart Of The City Programme	-	£25.6m
Education, Children & Families	School Condition & Expansion Programme	-	£4.9m
Strategy & Resources	Corporate Maintenance Activity	-	£1.9m
Transport, Regeneration & Climate Change	Future High Streets Fund Activity	-	£1.2m

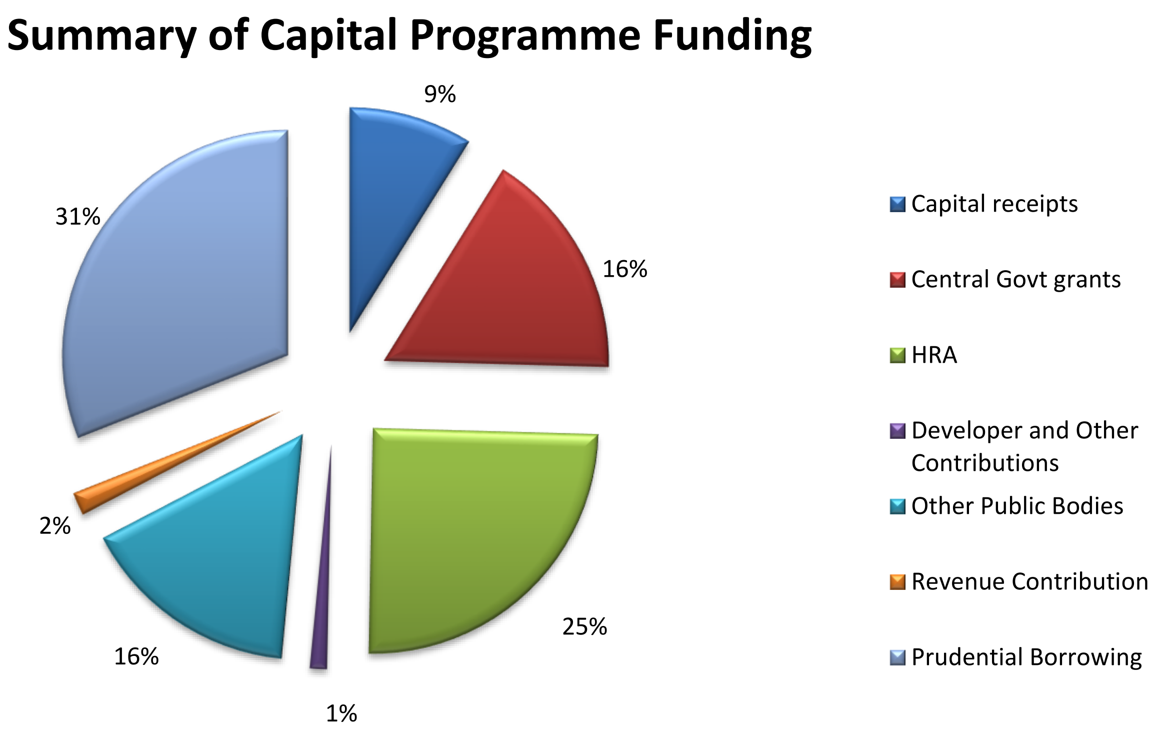
A level of slippage is inevitable in any capital programme and, as identified above, key contributors to the figure in 2022/23 have often been factors outside the Council's control. We need to be honest with ourselves about this and set more realistic forecasts up-front. We are ambitious for Sheffield and impatient to deliver. But over-promising serves no-one's interests.

7 FUNDING AND RESOURCES

How the capital programme is funded; key risks to note

7.1 Breakdown of capital funding

Capital expenditure in 2022/23 totalled £190.6m, broken down in the following proportions:



Taking each of the key funding streams in turn:

A Prudential borrowing

The £59.1m of Prudential Borrowing makes up almost 31% of the capital programme. The major schemes funded by this are:

- Heart of the City II scheme (£40.8m). Future revenues and capital receipts from developed sites are expected to offset future principal and revenue costs. We keep this under ongoing review.
- Major Sporting Facilities financing arrangements (£16.6m).
- Vehicle Fleet upgrade to improve air quality and reduce repair costs (£1.8m).

B Capital receipts

Utilisation of capital receipts (£16.9m) has funded:

- Heart of the City (£9.3m) representing the utilisation of the receipts from the first residential disposals at Burgess House to as part of the funding strategy for the programme
- New Council Housing Provision (£5.1m) using receipts retained under Right To Buy legislation to replenish council housing stock
- Acquisition of strategic land as a catalyst for regeneration (£1.3m)
- Investment in improvement and major maintenance of the Corporate Estate (£0.9m)

C Central government grants

Expenditure funded by Central Government Grants (£31.5m) has addressed:

- Disabled Facilities Grant funded activity (£8.1m).
- Grants from the Department for Education for the creation of new school places and maintenance of schools' infrastructure (£12.7m)
- Future High Streets Fund Investment at Fargate (£1.8m)
- Levelling Up Fund activity at the Castle Site and Attercliffe (£2.5m)
- Contributions towards Clean Air Targets (£3.1m)
- Stocksbridge Towns Fund Activity (£0.4m)
- Local Authority Housing Fund for acquisition of properties (£0.8m)
- Public Sector Decarbonisation Works to Council Estate (£0.9m)

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. In total expenditure of £47.4m has been incurred on the maintenance of Council housing stock and part-funding the construction of new council housing.

E Other Public Bodies

These contributions totalling £30.3m are made up of:

- Sheffield City Region Mayoral Combined Authority grants (£20.6m) for numerous transport and regeneration schemes; includes Active Travel Funding, Transforming Cities Transport Funding, Local Transport Plan Funding and Get Britain Building Funds.
- Environment Agency (£3.2m) contribution to various Flood Prevention schemes
- Tees Valley Combined Authority (£2.9m) Local Authority Delivery funding for low carbon housing measures (both private sector and Council-owned housing stock)
- Heritage Lottery Fund (£1.3m) in relation to funding for the General Cemetery renewal scheme
- Homes England Funding (£1.1m) to support the delivery of new Council housing
- Sport England Funding (£0.9m) to support various parks schemes, promoting physical activity.

7.2 Key risks and issues

As rehearsed throughout this document, there are many risks and issues facing the delivery of the capital programme:

- Increase in scheme costs on projects in progress – possible compensation payments for delay and increased costs resulting from price increases of materials.
- Reduced overall investment capacity - costs of tendered works are inflated to accommodate risk and supply chain issues.
- Lack of interest in our tender opportunities - smaller contractors struggle to source materials due to relative lack of purchasing power and therefore do not tender; larger contractors are now much more selective when deciding which tender opportunities to prioritise.
- Tenderers are unwilling to hold tenders open for acceptance for the usual period due to unprecedented price increases for some materials or trades.
- Delays to schemes due to inability to source materials.
- Increased disputes due to cost increases incurred since the scheme was tendered.
- An increased focus on net zero potentially leads to further increases in costs if more environmentally friendly solutions cost more.
- Weakened economy may impact negatively upon level of capital receipts required to fund some schemes.
- Delays to schemes may jeopardise time-limited funding streams if funders are unwilling to offer flexibility on these.
- Levels of grant funding may fall, and central government may change its investment priorities.
- The full extent of the changing landscape relating to retail, ways of working and transport has yet to crystallise.

Careful monitoring of the situation on key contracts and negotiations with funders will be undertaken to quantify and mitigate these risks. We will also keep our proposed projects under review to enable us to respond swiftly to the changing landscape and funders' emerging priorities. However, there is little we can do to increase material supplies or limit cost increases. We have had no choice other than to accept these risks and issues and respond flexibly when they arise. We have taken steps to mitigate some of the largest risks – such as increasing contingency pots – and will continue to plan accordingly, sharing best practice with other local authorities as we adjust to the 'new normal'.

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. 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.

Ongoing challenge and support for project managers' forecasting

Project managers are challenged every month on their highlight reports and forecasts to continually improve their performance and ensure we have timely and accurate management information. Further guidance has been provided at the start of this new financial year and there is a key focus on ensuring the deliverability of schemes to profile in the light of the market challenges we are facing.

Improved reporting

A snapshot monthly monitoring report is produced, highlighting key areas of under and over spend, together with levels of forecasting, spend trends and key risks and issues. This is shared with senior officers and Members to enable appropriate and timely actions to be taken.

Constructive challenge of business cases

The work of the Business Case Review Group continues, providing 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 the Capital Delivery Service to ensure a joined-up approach to the financing, procurement and delivery of a project. This helps to ensure that business cases are deliverable on time and in budget.

Revisiting business units to distinguish slippage from re-profiling

Entire project values are no longer 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 will not be added to the programme at the outset of phase 1.

Evolving our procurement approaches to respond to changing market conditions

We remain in a contractors' market for the time being and contractors remain extremely selective of the opportunities they will tender for. We keep this under review and use alternative procurement methods (such as 'two stage' design and build contracts, as opposed to 'single stage') which help minimise contractor risks in the tendering process – making our opportunities more attractive to the market.

That said, there is no such thing as the perfect procurement route. Two stage processes lessen the focus on price competition as there is greater focus on negotiation. Whilst early contractor involvement can bring many benefits to projects – including innovation – there remains the risk that final prices creep higher due to the lack of price competition.

Revisiting our investment priorities

Working with colleagues in across the Council, we continue to work with elected Members to ensure our investment priorities are clearly articulated and meet the City's changing needs.

Tackling delivery risks

Work with statutory undertakers is ongoing to minimise delays and unnecessary costs.

More effective working with strategic partners

We continually challenge our operational processes when commissioning 'non-core' highways works through our strategic partner, Amey. There is always scope to improve these and reduce levels of slippage on elements of the Transport capital programme. We are piloting new ways of working to reduce duplication and increase efficiency.

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 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 overspend.
Overspend	Spend more than 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 overspend 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.

Page 103

Sheffield City Council

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