Public Document Pack

Cabinet

Wednesday 20 May 2020 at 2.00 pm

To be held as an online video conference (details of how to access the meeting will follow)

The Press and Public are Welcome to Attend

Membership

Councillor Julie Dore	(Leader of the Council)
Councillor Jackie Drayton	(Cabinet Member for Children & Families)
Councillor Terry Fox	(Cabinet Member for Finance, Resources and Governance)
Councillor Mazher Iqbal	(Cabinet Member for Business and Investment)
Councillor Bob Johnson	(Cabinet Member for Transport and Development)
Councillor Mark Jones	(Cabinet Member for Environment, Streetscene and Climate Change)
Councillor Mary Lea	(Cabinet Member for Culture, Parks and Leisure)
Councillor George Lindars-Hammond	(Cabinet Member for Health and Social Care)
Councillor Abtisam Mohamed	(Cabinet Member for Education and Skills)
Councillor Paul Wood	(Cabinet Member for Neighbourhoods and Community Safety)

Sheffield City Council

PUBLIC ACCESS TO THE MEETING

The Cabinet discusses and takes decisions on the most significant issues facing the City Council. These include issues about the direction of the Council, its policies and strategies, as well as city-wide decisions and those which affect more than one Council service. Meetings are chaired by the Leader of the Council, Councillor Julie Dore.

A copy of the agenda and reports is available on the Council's website at www.sheffield.gov.uk. You may not be allowed to see some reports because they contain confidential information. These items are usually marked * on the agenda.

Members of the public have the right to ask questions or submit petitions to Cabinet meetings and recording is allowed under the direction of the Chair. Please see the website or contact Democratic Services for further information regarding public questions and petitions and details of the Council's protocol on audio/visual recording and photography at council meetings.

Cabinet meetings are normally open to the public but sometimes the Cabinet may have to discuss an item in private. If this happens, you will be asked to leave. Any private items are normally left until last. Please see the Council's website for details of how to access the remote meeting.

Cabinet decisions are effective six working days after the meeting has taken place, unless called-in for scrutiny by the relevant Scrutiny Committee or referred to the City Council meeting, in which case the matter is normally resolved within the monthly cycle of meetings.

If you require any further information please contact Craig Rogerson on 0114 273 4014 or email craig.rogerson@sheffield.gov.uk.

CABINET AGENDA
20 MAY 2020

Order of Business

1. Welcome and Housekeeping Arrangements

2. Apologies for Absence

3. Exclusion of Public and Press
To identify items where resolutions may be moved to exclude the press and public

4. Declarations of Interest (Pages 1 - 4)
Members to declare any interests they have in the business to be considered at the meeting

5. Public Questions and Petitions
To receive any questions or petitions from members of the public.

6. Items Called-In For Scrutiny
The Director of Legal and Governance will inform the Cabinet of any items called in for scrutiny since the last meeting of the Cabinet

7. Date and Time of Future Meetings
To agree that future meetings of the Cabinet be held on a monthly basis on the following Wednesdays at 2.00 pm:-

17th June 2020
15th July 2020
23rd September 2020
21st October 2020
18th November 2020
16th December 2020
20th January 2021
24th February 2021
17th March 2021
21st April 2021
26th May 2021
23rd June 2021
21st July 2021

8. Coronavirus (COVID-19) - Response and Recovery
Report (to follow) of the Interim Chief Executive.

9. Revenue Budget and Capital Programme Monitoring 2019-20 - Outturn (Pages 5 - 54)
Report of the Executive Director, Resources.

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ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

If you are present at a meeting of the Council, of its executive or any committee of the executive, or of any committee, sub-committee, joint committee, or joint sub-committee of the authority, and you have a **Disclosable Pecuniary Interest** (DPI) relating to any business that will be considered at the meeting, you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business, or
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

You **must**:

- leave the room (in accordance with the Members' Code of Conduct)
- make a verbal declaration of the existence and nature of any DPI at any meeting at which you are present at which an item of business which affects or relates to the subject matter of that interest is under consideration, at or before the consideration of the item of business or as soon as the interest becomes apparent.
- declare it to the meeting and notify the Council's Monitoring Officer within 28 days, if the DPI is not already registered.

If you have any of the following pecuniary interests, they are your **disclosable pecuniary interests** under the new national rules. You have a pecuniary interest if you, or your spouse or civil partner, have a pecuniary interest.

- Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner undertakes.

- Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period* in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

  *The relevant period is the 12 months ending on the day when you tell the Monitoring Officer about your disclosable pecuniary interests.

- Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority –

  - under which goods or services are to be provided or works are to be executed; and
  - which has not been fully discharged.

- Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

- Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

- Any tenancy where (to your knowledge) –
  - the landlord is your council or authority; and
  - the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

- Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -

  (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and

  (b) either -
    - the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
    - if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

If you attend a meeting at which any item of business is to be considered and you are aware that you have a **personal interest** in the matter which does not amount to a DPI, you must make verbal declaration of the existence and nature of that interest at or before the consideration of the item of business or as soon as the interest becomes apparent. You should leave the room if your continued presence is incompatible with the 7 Principles of Public Life (selflessness; integrity; objectivity; accountability; openness; honesty; and leadership).

You have a personal interest where –

- a decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing (including interests in land and easements over land) of you or a member of your family or a person or an organisation with whom you have a close association to a greater extent than it would affect the majority of the Council Tax payers, ratepayers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the Authority's administrative area, or

- it relates to or is likely to affect any of the interests that are defined as DPIs but are in respect of a member of your family (other than a partner) or a person with whom you have a close association.

Guidance on declarations of interest, incorporating regulations published by the Government in relation to Disclosable Pecuniary Interests, has been circulated to you previously.

You should identify any potential interest you may have relating to business to be considered at the meeting. This will help you and anyone that you ask for advice to fully consider all the circumstances before deciding what action you should take.

In certain circumstances the Council may grant a **dispensation** to permit a Member to take part in the business of the Authority even if the member has a Disclosable Pecuniary Interest relating to that business.

To obtain a dispensation, you must write to the Monitoring Officer at least 48 hours before the meeting in question, explaining why a dispensation is sought and desirable, and specifying the period of time for which it is sought. The Monitoring Officer may consult with the Independent Person or the Council's Audit and Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Gillian Duckworth, Director of Legal and Governance on 0114 2734018 or email gillian.duckworth@sheffield.gov.uk.

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Author/Lead Officer of Report: Dave Phillips, Head of Strategic Finance

Tel: 0114 273 5872

Report of:	*Eugene Walker*
Report to:	*Cabinet*
Date of Decision:	*20th May 2020*
Subject:	*Revenue and Capital Budget Monitoring 2019/20 – As at 31st March 2020*

Is this a Key Decision? If Yes, reason Key Decision:- Yes ✓ No ☐

- Expenditure and/or savings over £500,000 ✓
- Affects 2 or more Wards ✓

Which Cabinet Member Portfolio does this relate to? *Finance and Resources*

Which Scrutiny and Policy Development Committee does this relate to?
Overview and Scrutiny Management Committee

Has an Equality Impact Assessment (EIA) been undertaken? Yes ☐ No ✓

If YES, what EIA reference number has it been given? *(Insert reference number)*

Does the report contain confidential or exempt information? Yes ☐ No ✓

If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-

Purpose of Report:

This report provides the outturn monitoring statement on the City Council's Revenue and Capital Budget for 2019/20

Recommendations:

1. Cabinet are asked to:

   (a) Note the updated information and management actions provided by this report on the 2019/20 Revenue Budget Outturn, and the information on reserves in attached **Appendix 1;**

   (b) Consider for approval the Place Portfolio carry forward request as detailed from Paragraph 7;

	(c)	In relation to the Capital Programme, note the forecast Outturn position described in **Appendix 2;**
	(d)	Note the annual Treasury Management Outturn report for 2019/20, attached as **Appendix 3;** and
	(e)	Approve the actual 2019/20 prudential and treasury indicators presented in Annex 2 of Treasury Management Outturn report

Background Papers:

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: *Dave Phillips*
		Legal: *Sarah Bennett*
		Equalities: No
	Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.	
2	**EMT member who approved submission:**	*Eugene Walker*
3	**Cabinet Member consulted:**	*Councillor Terry Fox* *Cabinet member for Finance and Resources*
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: *Dave Phillips*	**Job Title:** *Head of Strategic Finance*
	Date: 12th May 2020	

1. PROPOSAL

1.1 This report provides the outturn monitoring statement on the City Councils Revenue and Capital Budget for 2019/20

2. HOW DOES THIS DECISION CONTRIBUTE?

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

3. HAS THERE BEEN ANY CONSULTATION?

3.1 *No*

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality of Opportunity Implications

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

4.2 Financial and Commercial Implications

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

4.3 Legal Implications

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

4.4 Other Implications

4.4.1 Although this report deals, in part, with the Capital Programme, it does not, in itself, contain any property implications, nor are there any arising from the recommendations in this report.

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 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.

6. REASONS FOR RECOMMENDATIONS

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

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Revenue Budget & Capital Programme Monitoring
As at 31st March 2020

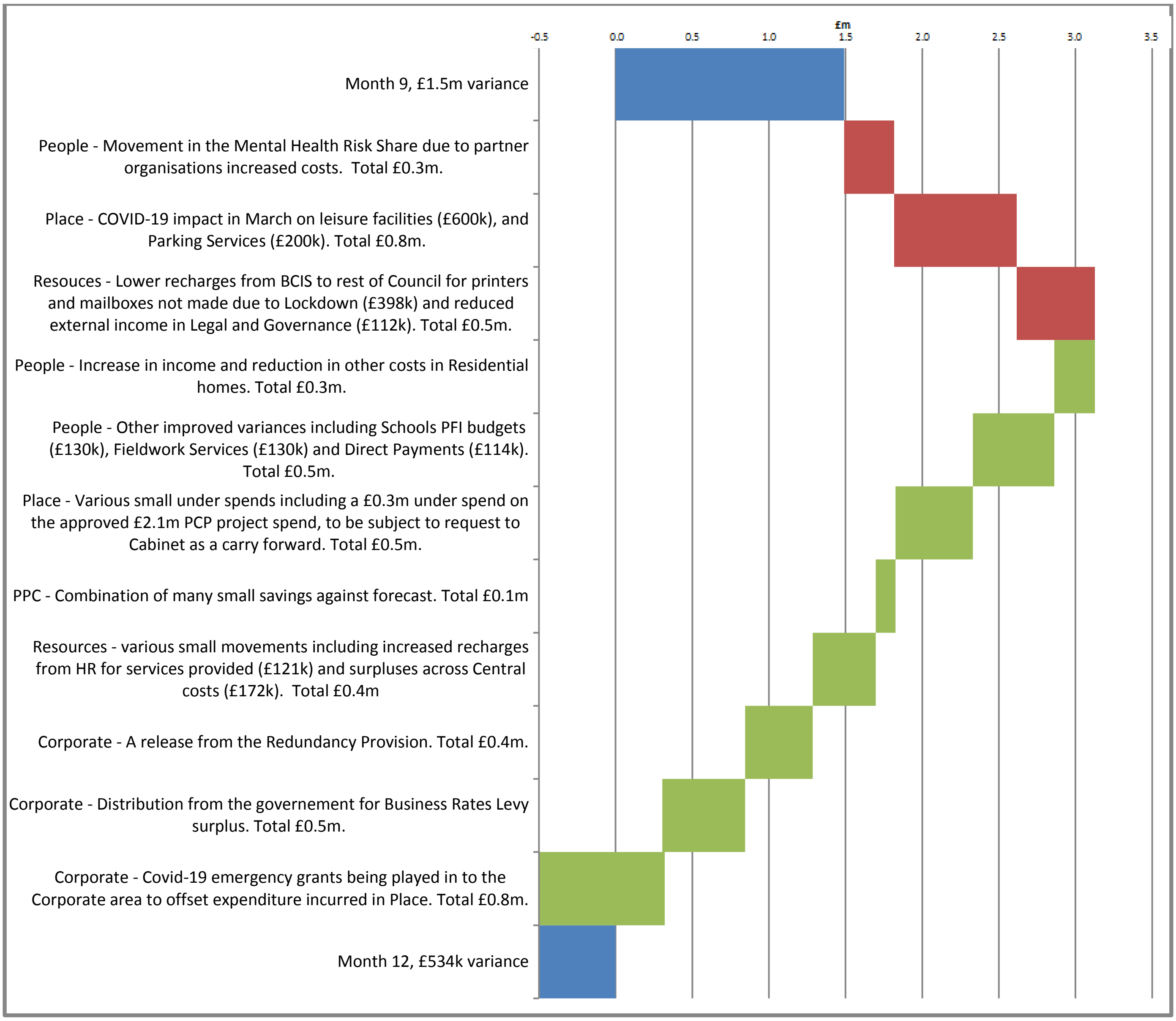
Report author: Dave Phillips, Head of Strategic Finance

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 12.

Summary

2. The Council's revenue budget as at 31st of March is underspent by £534k. This underspend is prior to a £335k carry forward request from the Place portfolio. If agreed, the underspend will reduce to £199k. The below graph summarises the movements towards this outturn from the Month 9 position[1].



[1] Cabinet Item 11 - 19th February 2020

3. It should be noted that this position represents a significant improvement in the overall budget outturn since the Month 9 (£1.5m over spend) and Month 6 (£2.6m over spend) forecasts. This was expected as measures to control demand and spending have taken effect.

4. The Children and Families Service was the most significant area of over spend (£6.2m), reflecting nation-wide and much publicised demand and cost pressures in Children's social care. The Place portfolio also over spent due to pressures within leisure facilities and parking services as a result of a loss in income from the impact of the Covid-19 outbreak. This was though offset by the release of Emergency grants in relation to Covid-19 showing in Corporate. There were also positive movements in budgets, such as unexpected grant income, deferred capital financing charges and reductions in spend in other services.

5. Covid aside, this is a similar message to recent years – large social care overspends, offset by improvements in other services and corporate budgets to balance the position. The longer term impacts of Covid 19 have been covered in greater detail in the Corporate Risk Register below.

Portfolio Outturn Position

6. The below table summarises the Month 12 Outturn position split by individual portfolios. The movements to the Month 9 position are given in the above chart.

Portfolio	Forecast Outturn	Full Year Budget	Forecast Variance	Movement from Month 9
People	270,823	263,523	7,300	⇩
Place	201,709	201,017	692	⇧
Policy, Performance & Communications	3,133	3,344	(211)	⇩
Resources	10,399	10,493	(94)	⇔
Corporate	(486,599)	(478,377)	(8,222)	⇩
Grand Total	**(534)**	**-**	**(534)**	⇩

Carry Forward Request

7. Cabinet approved a Place Change Programme project budget of £2.1m to deliver the planned change programme and its associated 4 year savings plan. To date it has cost £1.8m leaving a balance of £335k still to be incurred. Funds have been identified within the overall Place provisional outturn, within the Strategy & Change service area, which could be used to cover these future costs and hence the carry forward request.

8. If this were not approved, Place would have to fund the activity from prioritising spend elsewhere or borrow from Corporate reserves (as per original Invest to Save approval) and subsequently repay from future savings to be identified.

9. The money will be used to fund four staff engaged on enabling activities improving information systems, and, providing additional HR and Finance and Commercial Services support to the project. Poor management data has been identified as a barrier to performance improvement. Work to date has already delivered productivity improvements in services such

as Pest Control which are engaged in commercial activities. This is part of the Fees and Charges work stream, which along with annual price increases was expected to generate £3m out of a planned total of £17.2m savings over four years.

Dedicated Schools Grant (DSG)

10. At Month 12, the Council is forecasting a £1.6m overspend on DSG budgets. The key reasons for this over spend are a forecast £1.1m overspend relating to SEND, mainly in placements, reflecting higher costs and demands for these placements, £104k overspend in Children's Residential Homes, due to an overspend on staffing costs, an £84k overspend on Children with Disabilities placements, due to an increase in the number and costs for these placements and £239k overspend on Home to School Transport, due to an increase in demand and costs. The Portfolio has identified sufficient funds within the DSG reserve to cover this overspend.

11. The movement from month 9 is an improvement of £307k. The key reasons for this are improvements in SEND, due to slippage in placement costs, a reduction in forecast on growth fund for special schools and a reduction in payments for out of city placements.

Public Health

12. 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 has been 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 9	Variance Mth 9	Diff Mth 12 to Mth 9
People	28,123	27,687	436	⇩	565	(129)
Place	2,802	2,872	(70)	⇔	(56)	(14)
Director of Public Health	1,665	1,916	(251)	⇔	(160)	(91)
Total	**32,590**	**32,475**	**115**	⇩	**349**	**(234)**

13. 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 £436k overspend. This is partly offset by improvements in Place and Director of Public Health of a combined £321k. This is mainly due to underspends across employees, health checks and additional income sources reducing the grant requirement

14. This position has improved by £234k across the Council since the Month 9 Report. The majority of this improvement is from a reduction in costs in sexual health within the People portfolio.

Housing Revenue Account

15. The HRA income and expenditure account provides a contribution towards funding the HRA capital investment programme. As at Month 12 the full year outturn position is a positive variance of £1.2m from the budgeted position. As such the funding contribution to the capital investment programme will be revised to take this into account.

Housing Revenue Account (*excluding Community Heating*)	**Forecast Outturn**	**Full Year Budget**	**Forecast Variance**	**Movement from Month 9**	**Variance Mth 9**	**Diff Mth 12 to Mth 9**
1. Net Income - Dwellings	(138,816)	(138,761)	(55)	⇧	(388)	333
2. Other Income	(6,551)	(6,311)	(240)	⇩	(53)	(187)
3. Tenant Services incl. Repairs & Maintenance	88,318	89,240	(923)	⇔	(852)	(71)
4. Depreciation	25,080	25,080	0	⇔	0	0
5. Interest on borrowing	13,260	13,265	(4)	⇔	(79)	75
6. Contribution to Capital Programme	18,708	17,486	1,222	⇩	1,372	(150)
Total	**(0)**	**0**	**(0)**	⇔	**-**	**(0)**

16. The improvement on budget arises from a net saving in the operating costs of providing Tenant Services and Repairs and Maintenance to the housing stock.

17. The Month 12 position is £150k worse than forecast at Month 9 due to a number of variances including £0.5m reduced pension and interest costs offset by increased costs of providing furnished accommodation, repairs and bad debt provisions.

Un-earmarked and Earmarked Reserves

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

19. Useable revenue reserves balances as at 31st March 2020 are estimated to be £257.5m, pending audit scrutiny. These reserves comprise mainly earmarked reserves, but included in the above total is £12.6m for un-earmarked reserves, which represent 3.0% of the 2019/20 net budget requirement of £420.0m. The £12.6m is in line with the minimum prudent level recommended by the Executive Director of Resources.

20. Usable reserves have increased by £49.3m in 2019/20. £32.5m of this increase is related to the Covid 19 virus. The Government paid the Council £33.3m of funding late in March, £18.2m to cover general costs across the Council, particularly in Social Care, and a £15.1m prepayment for 2020/21 Business Rates Sections 31 grants, to aid the Council's cash flow position. As at 31st March 2020 £0.8m of the general Covid fund had been used. However it is likely the financial impacts of Covid 19 will greatly exceed this level of funding.

21. Earmarked reserves are set aside to meet known or predicted future liabilities. These liabilities mean that these reserves are not normally available to fund budget overspends. However we examine these reserves each year to see if any are no longer needed and can be released. The potential for the costs of Covid to far exceed the funding from Government will bring this sharply in to focus in 2020/21.

22. Earmarked reserves also exist because of the need to smooth the significant payments made on programmes such as the Major Sporting Facilities (MSF) and PFI schemes over the 20 year plus terms of the underlying agreements.

23. Further details on reserves and their use can be found in **Appendix 1**.

Insurance Funds

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

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

25. In common with many other Local Authorities The Council was insured with MMI, a Mutual set up to provide Local Authority insurance.

26. MMI ceased trading in September 1992 and The Council is a member of the Scheme of Arrangement for its run-off. This Scheme manages the assets and liabilities of MMI and is administered by Ernst Young.

27. To date the scheme has clawed back 25% of claims paid from members. The Council currently has a potential further claw back of £3.744m with MMI and £642,000 relating to South Yorkshire Residuary Body (SYRB).

28. The Insurance Account as at 31 March 2020 has a balance of £19.3 Million; potential outstanding liabilities as at 31 March 2020 are £21.9 Million. The Insurance Account is therefore 88% funded as at 31 March 2020, which represents a satisfactory level of funding.

Capital Summary

29. The approved capital programme budget for 2019/20 at 31 of March 2020 was £152.3m. The overall outturn of expenditure against this approved budget is £128.5m, representing a variance of £23.8m. Further monitoring of the Capital Programme is reported in **Appendix 2**.

Corporate Risk Register

30. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. There has been one significant addition to this Register since the Month 9 Report to reflect the Covid 19 outbreak.

31. The Covid virus and ongoing lockdown clearly present an unprecedented challenge to Local Authorities up and down the country. As well as having to engage in very different ways of working and overcome significant and varied problems, there is also a potentially huge financial impact.

32. At the latest estimate the Council anticipates around £70m of Covid related pressures, these include reduced Business Rates and Council Tax income, reduced fee income from areas such as Parking and Leisure Facilities and increased costs, particularly in relation to Social Care.

33. To date we have received £34.3m of funding from Central Government, to cover general costs across the Council. This still leaves us significantly short of the funding required. We continue to make plans to mitigate this gap, and to and lobby Government for an appropriate level of funding.

Annual Treasury Management Review

34. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury review of activities, and the actual prudential and treasury indicators for 2019/20. This review is needed to meet the requirements of the CIPFA Code of Practice on Treasury Management (the code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). During 2019/20 the Full Council received the Annual Treasury Strategy, whilst Cabinet were presented with the Outturn Report. Reports were also taken to the Cabinet Member for Finance during the year.

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

36. The Annual Treasury Management Review is attached as **Appendix 3**.

Implications of this Report

Financial implications

37. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2019/20, but does request funding be carried into the next financial year to support project expenditure on the Place Change Programme.

Equal opportunities implications

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

Legal implications

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

Property implications

40. Subject to the description of the Capital Programme within **Appendix 2**, there are no other property implications arising from the recommendations in this report this report.

Recommendations

41. Cabinet are asked to:

(a) Note the updated information and management actions provided by this report on the 2019/20 Revenue Budget Outturn, and the information on reserves in attached **Appendix 1;**

(b) Consider for approval the Place Portfolio carry forward request as detailed from Paragraph 7;

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

(d) Note the annual Treasury Management Outturn report for 2019/20, attached as **Appendix 3;** and

(e) Approve the actual 2019/20 prudential and treasury indicators presented in Annex 2 of Treasury Management Outturn report.

Reasons for Recommendations

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

Alternative options considered

43. 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.

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Reserves Out-turn 2019-20

Appendix 1

Description	Balance at 31/03/19 £000	Movement in 2019/20 £000	Balance at 31/03/20 £000	Movement in 2020/21 £000	Balance at 31/03/21 £000	Explanation
Non-earmarked Reserves						
General Fund Reserve	8,126	4,490	12,616	0	12,616	The Council's working balance: used as a last resort for emergency spend. The balance as at 31st March 2020 is 3% of net spending in line with the minimum prudent level recommended by the Executive Director of Resources
	8,126	**4,490**	**12,616**	**0**	**12,616**	
PFI Reserve	33,678	(1,704)	31,974	(2,041)	29,933	The PFI reserve exists due to Government funding being received in advance to pay future years' liabilities. This income is set aside in a reserve until needed to ensure sufficient funds are available to cover the cost of contracts in future years.
Highways PFI Reserve	8,002	(3,536)	4,465	(2,614)	1,851	
Total PFI Reserve	**41,679**	**(5,240)**	**36,440**	**(4,655)**	**31,784**	
Invest to Save	**5,354**	**1,692**	**7,046**	**1,642**	**8,688**	Used to fund transformation projects aimed at delivering long term revenue savings.
Major Sporting Facilities	**24,159**	**4,473**	**28,632**	**(12,315)**	**16,317**	The Major Sporting Facilities (MSF) reserve exists because of the need to smooth the future significant payments due to Sheffield City Trust (re: Ponds Forge, the Arena, Don Valley Stadium and Hillsborough Leisure Centre).
New Homes Bonus	**11,749**	**5,429**	**17,178**	**(3,200)**	**13,978**	This reserve is earmarked to support economic development across the City.
Insurance Fund Reserve	**10,174**	**178**	**10,352**	**0**	**10,352**	This reserve is set aside to cover potential insurance claims made against the Council.
Public Health	**1,152**	**(932)**	**220**	**0**	**220**	During 2013/14 the DoH allocated Public Health Grant to enable local authorities (LA) to discharge their new public health responsibilities. Grant conditions for this funding requires the LA to transfer any unspent funds to reserves for use in future years.
Service Area Reserves	**14,129**	**1,894**	**16,023**	**500**	**16,523**	These are a variety of service specific reserves agreed by Cabinet in previous years set aside for long-term projects / plans, examples include the Workplace Accommodation Strategy and the Flexible Development Fund
Children's and Adult Social Care	**18,864**	**(15,410)**	**3,454**	**(3,454)**	**0**	Social Care reserves are held to deal with transforming Social Care in Sheffield to better meet the much publicised challenges facing the sector and to deal with unforeseen costs.
Business Rates Appeals	**19,576**	**(16)**	**19,560**	**0**	**19,560**	This reserve is required to cover potential reductions in Business Rate income following future successful appeals.
Covid	**0**	**32,537**	**32,537**	**(32,537)**	**0**	This includes specific emergency Covid funding from Government to cover costs and prepayment of 2020/21 Business Rates Section 31 grants to support the Council's cash flow position during the Covid crisis.
Other earmarked	**53,292**	**20,184**	**73,476**	**14,215**	**87,691**	Other Earmarked reserves include funds which are set aside to cover predicted liabilities such as redundancies, equal pay claims and the costs of the ICT 2020 project. During 2016/17 £48m of these reserves were used temporarily to fund the Pension Deficit early payment. These funds have been repaid over the last three years ensuring that the funds are available when needed for their primary purpose.
Total Earmarked Reserves	**200,129**	**44,789**	**244,918**	**(39,804)**	**205,114**	
Total Revenue Reserves	**208,255**	**49,279**	**257,534**	**(39,804)**	**217,730**	

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May 2020

CAPITAL OUTTURN REPORT 2019/20

Sheffield City Council

1 INTRODUCTION

A succinct summary of the report content and conclusions

1.1 Purpose of report

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

Our capital spending falls under nine priority areas:

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

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

In March 2019, Cabinet approved a capital programme budget for the financial year 2019/20. This Outturn Report sets out how we delivered against the 2019/20 approved budget.

The purpose of this report is to set out:

- levels of actual spend that occurred throughout 2019/20 (sections 2 and 3)
- key projects which underspent and the reasons for this (section 4)
- key projects which overspent and the reasons for this (section 5)
- levels of slippage and the reasons for this (section 6)
- how the capital programme is funded and how these resources have been spent (section 7)
- actions we are taking to improve our performance (section 8).

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

1.2 Headline conclusions

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

Whilst there continues to be slippage on the capital programme, we 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 strategic decisions rather than failure of delivery. Use of this analysis will continue alongside our continued monitoring and critical challenge of unrealistic budget profiles in order to deliver a robust capital budget with minimal variances.

We are pleased to note 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 (see section 3.2). This gives us some reassurance of our ability to spend money to profile.

That said, there is no room for complacency. The Council will continue to make ongoing improvements to its processes and governance to reduce slippage in the capital programme in order to maximise the timely delivery of benefits to Sheffield citizens.

Damian Watkinson
Finance Manager, Commercial Business Development
Finance and Commercial Services
May 2020

2 KEY FACTS

Key high-level budget and expenditure information

2.1 Budget and expenditure headlines

Approved capital programme budget for 2019/20 as at 31 March 2019 (Month 1)	£177.2m
Approved capital programme budget for 2019/20 as at 31 December 2019 (Month 9) – the latest report to Cabinet	£165.1m
Approved capital programme budget for 2018/19 at 31 March 2019 (Month 12)	£152.3m
Actual expenditure against the revised budget of £152.3m	£128.5m

2.2 Reasons for budget changes between Month 9 and Month 12

These approved capital budgets were reduced by £12.8m between the end of December 2019 and March 2020:

	2019/20 (£m)
Month 9 approved budget	165.1
Additions	1.3
Variations	3.4
Reprofile	-7.5
Slippage and acceleration	-10.1
Month 12 approved budget	152.3

The key projects which had 2019/20 in-year budget changes between Month 9 and Month 12 are:

Reprofiling		Slippage		Additions		Variations	
Brownfield Site Acquisition (Housing Growth)	-£5m	Heart of The City II	-£4m	Care Leavers' Accommodation	+£0.4m	Annualised capital interest - Heart of the City II	+2.5m
Block Allocations for Housing Investment	-£2.3m	Grey to Green 2	-£1m	Walkley Primary School Contribution	+£0.3m	Fit out payments Heart of the City II Block D	+£4.1m
		New Council Housing Ph 2	-£0.9m			Housing Investment & Loan reductions	-£2.5m
		Broadfield Rd Junction	-£0.8				
		City Centre Safety	-£0.7m				
		Astrea Academy Pitch	-£0.7m				
		Parking Schemes	-£0.6m				
		Council Housing Garage Strategy	-£0.4m				
		Transforming Cities Fund	-£0.3				

3 PERFORMANCE BY PRIORITY AREA

A summary of expenditure against budget at Month 12

3.1 Year-end net slippage figures

The overall outturn of expenditure against the approved budget of £152.3m budget was £128.5m. 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 £19.6m. This represents 13% of the approved Month 12 budget.

Portfolio	Approved Expenditure Budget	Expenditure 31/03/20 (Qtier)	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpend	Internal Adjusment	Percentage Year End Net Slippage
ECONOMIC GROWTH	11,148,311	9,247,084	1,901,227	1,580,877	-	(1,473)	(24,558)	128,833	217,547	14%
ESSENTIAL COMPLIANCE & MAINT	9,344,429	4,897,590	4,446,839	4,406,855	28,304	(16,780)	(30,968)	59,429	-	47%
GREEN & OPEN SPACES	1,212,452	1,045,873	166,579	174,270	1,500	(14,906)	(5,779)	10,053	1,440	13%
HEART OF THE CITY II	22,836,820	20,840,904	1,995,916	2,104,441	-	(224,280)	(14,000)	129,755	(0)	8%
HOUSING GROWTH	22,869,109	19,788,469	3,080,640	2,719,367	67,579	(369,247)	(64,797)	68,738	659,000	10%
HOUSING INVESTMENT	40,092,958	37,337,642	2,755,316	1,746,462	1,309,462	(870,705)	(141,668)	705,473	6,293	2%
PEOPLE CAPITAL & GROWTH	14,881,444	13,407,429	1,474,015	1,084,049	441,939	(58,392)	(343,605)	350,024	-	7%
QUALITY OF LIFE	15,343,870	14,456,072	887,798	226,504	-	(22,311)	(0)	705,945	(22,341)	1%
TRANSPORT	13,292,349	6,214,807	7,077,542	7,233,163	-	(119,033)	(91,124)	54,535	0	54%
CORPORATE	1,250,000	1,250,000	-	-	-	-	-	-	-	0%
GRAND TOTAL	**152,271,742**	**128,485,871**	**23,785,872**	**21,275,989**	**1,848,784**	**(1,697,127)**	**(716,499)**	**2,212,786**	**861,939**	13%

3.2 Year-end net slippage explanation

The highest levels of year-end net slippage were on the Transport (54%) and Essential Compliance and Maintenance (47%) priorities:

Transport

- Delays to the Broadfield Road Junction Scheme as a result of difficulties securing the required land acquisitions to proceed (£1.4m);
- Delays to the Clean Bus Technology Grant scheme to private bus operators. This has been due to the bus operators experiencing supply chain issues in relation to the equipment required (£1.4m); and
- Delays in Ultra Low Emission Vehicle Rapid Charger installation due to extended procurement process (£1m).

Essential Compliance and Maintenance

- Delays in procurement of new vehicles for Transport Fleet due to changing specifications as result of the Clean Air Zone Agenda and the introduction of the new Euro 6.2 engines in Autumn 2019, causing production delays (£2.6m). All orders are now placed and deliveries expected in summer 2020. However, this may now be further delayed as a result of COVID-19.
- Slippage in Corporate Buildings Essential Replacement Programme for corporate estate (£1m).

3.3 Impact upon the Council's resources

The vast majority of **overspends** were funded from External Grants or contributions. These did not therefore require additional support from the Council's resources.

In relation to **underspends**:

- £0.8m was to be funded by Prudential Borrowing. This will therefore generate revenue savings in future.
- £0.12m underspend against budget on Bus Rapid Transit North will benefit the Corporate Investment Fund.
- £0.3m savings will accrue to the Housing Revenue Account.

The remainder relates largely to grant-funded schemes and therefore provides no direct benefit to Council funds.

4 SPEND BELOW BUDGET

A summary of the top ten projects which spent below budget

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

Priority	Scheme Title	Approved Expenditure Budget	Integra Expenditure 31/03/20 (Qtier	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpend	Internal Adjusment	Comments
ESSENTIAL COMPLIANCE & MAINT	TRANSPORT EFFICIENCY	4,887,877	2,274,641	2,613,236	2,613,236	-	-	-	-	-	Purchases delayed due to revisions to vehicle specifications.
TRANSPORT	BROADFIELD ROAD JUNCTION	1,879,028	484,557	1,394,471	1,394,471	-	-	-	-	-	Known issues with ongoing purchase of land & CPO which has delayed the project.
TRANSPORT	CLEAN BUS TECHNOLOGY	2,672,426	1,278,715	1,393,712	1,393,712	-	-	-	-	-	Ongoing issues most of the year. The bus operators are responsible for planning and monitoring their programme but have previously experienced supply chain and technical issues.
TRANSPORT	ULEV RAPID CHARGERS	1,117,185	61,768	1,055,417	1,055,417	-	-	-	-	-	Issues with procurement that caused a 6 month delay to programme.
HOUSING GROWTH	DEVONSHIRE QUARTER	5,100,000	4,212,232	887,769	887,769	-	-	-	-	-	Budget still required to fund business relocation. This remaining budget will be used to construct new premises on the new site.
QUALITY OF LIFE	BROWN BIN IMPLEMENTATION	486,102	(305,040)	791,142	120,000	-	-	-	671,142	-	Last forecast estimated only £120K needed to complete the project, the rest is a saving.
HOUSING GROWTH	STOCK INCREASE (CHS)	784,090	-	784,090	-	67,579	-	57,511	-	659,000	Reprofile of £68K, remainder offsets overspends on other schemes and land appropriation for Hemsworth balance sheet transaction
ECONOMIC GROWTH	GREY 2 GREEN PH2	3,844,263	3,152,821	691,442	691,442	-	-	-	-	-	Incorrect level led to scheme redsign and delays, discovery of higher levels than expected of concrete underground, and weather related delays are key reasons for slippage on the scheme
HEART OF THE CITY II	G1 38 CARVER STREET	851,957	191,295	660,661	660,661	-	-	-	-	-	Slippage due to delays in tenant appointing contractors to commence refurbishment works so staged capital contribution payments delayed. Fist payment now certified and programe will be complete in 20/21
HOUSING GROWTH	NEW BUILD COUNCIL HSG PHASE 2	4,477,336	3,829,279	648,058	648,058	-	-	-	-	-	Delay in completion of contract due to inclement weather and in statutory body and utilities work. Originally due to declare £200k of contingency saving but delay claim cost due to COVID-19 delays currently unknown so all remaining budget to slip to 2020/21. Site work currently stopped and unknown when this will recommence.
TOTAL		**26,100,264**	**15,180,266**	**10,919,998**	**9,464,765**	**67,579**	**-**	**57,511**	**671,142**	**659,000**	

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.

Priority	Scheme Title	Approved Expenditure Budget	Integra Expenditure 31/03/20 (Qtier	Variance	Slippage	Reprofile	Accelerated Spend	Overspend	UnderSpend	Internal Adjusment	Comments
HOUSING INVESTMENT	ELECTRICAL STRATEGY	9,446,507	10,230,976	(784,469)	-	-	(784,469)	-	-	-	The project has continued to accelerate one of the contractors has completed their contracted work a year early. The 20/21 budget will be reduced accordingly with no expected increase to the overall budget.
HEART OF THE CITY II	C PEPPER POT BUILDING	3,013,166	3,209,100	(195,934)	-	-	(195,934)	-	-	-	Higher than anticipated demolition and façade retention costs. Additional risk provisiosn built in to cover this so will be contained with overall budget requirement. Remaining budget now aligned with agreed programme and cashflow.
HOUSING GROWTH	GENERAL/RTB ACQUISITIONS CHS	916,390	1,095,041	(178,651)	-	-	(178,651)	-	-	-	97 refurbishments were achieved against a revised estimate of 73 resulting in acceleration of budget previously slipped into 20/21
PEOPLE CAPITAL & GROWTH	MECHANICAL REACTIVE	-	91,933	(91,933)	-	-	-	(91,933)	-	-	Reactive emergency works required for which a budget allocation was not established in 19/20. Budget allocation to be put in place for 20/21
PEOPLE CAPITAL & GROWTH	DISABLED GRANTS	2,791,032	2,866,816	(75,784)	-	-	-	(75,784)	-	-	Grants delivered greater than budgeted. However, sufficient DFG funding held to cover this.
PEOPLE CAPITAL & GROWTH	HIGH VALUE EQUIPMENT (DFG)	500,000	574,262	(74,262)	-	-	-	(74,262)	-	-	Equipment installed greater than budgeted. However, sufficient DFG funding held to cover this.
PEOPLE CAPITAL & GROWTH	TELECARE/FIRE ALARM EQUIPMENT	250,000	320,000	(70,000)	-	-	-	(70,000)	-	-	Equipment installed greater than budgeted. However, sufficient DFG funding held to cover this.
HOUSING INVESTMENT	COMMUNAL AREAS-LOW RISE FLATS	450,000	517,810	(67,810)	-	-	(67,810)	-	-	-	Additional works to commissioned to be funded from future years block alloctaion.
HOUSING INVESTMENT	PROGRAMME MANAGEMENT COSTS RTB	416,000	481,000	(65,000)	-	-	-	(65,000)	-	-	Budget set based on estimated Right To Buy sales, actually sold more. Additional costs covered by additional sales.
HOUSING GROWTH	ACQUISITIONS HE FUNDED	216	63,646	(63,430)	-	-	-	(63,430)	-	-	Repair costs for the 10 acquisitions made with HE Grant in 18/19 were a lot more than originally budgeted. These works are now complete.
Total		**17,783,312**	**19,450,584**	**(1,667,272)**	**-**	**-**	**(1,226,864)**	**(440,409)**	**-**	**-**	**-**

6 SLIPPAGE

A statement of slippage levels for 2019/20 and comparison against previous years

6.1 Why is slippage important?

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

- **Financial planning** – inaccurate profiling makes it difficult for us to plan new investments and determine our borrowing requirements.
- **Revenue budget** – whilst slippage can have a positive effect through reducing our borrowing costs, it can also increase our costs when capital investment should result in reduced revenue running costs which are then delayed. There is also the risk that 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 may be a greater risk as supply chains and working practices are impacted by COVID-19.
- **Ancillary costs and consequential works** – delays to, for example, new school buildings can result in temporary accommodation being required at additional cost and disruption. Delays to planned maintenance can cause additional costs for short-term revenue repairs and increase the cost of the capital replacement in the longer term due to asset deterioration and the urgency of the repair.
- **Reputational damage** – if projects are not delivered as publicised, this can cause both internal and external damage to the Council's reputation.

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

6.2 What causes slippage?

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

- **Delays in planning consent** – this can be lengthy and must follow due process.
- **Timing of third party funding contributions** – slippage can occur when a project is entered onto the capital programme and funding is then delayed.

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

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

6.3 Historical position

Reducing the levels of slippage in the capital programme is 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, slippage levels tumbled to 24% in 2017/18. This is largely as a result of the introduction of the ‘Gateway Process’, which introduced greater rigour and accountability to project governance.

6.4 Current position

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

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

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

We therefore adopted this revised definition of slippage for 2018/19 onwards, and have used this to compare slippage in 2018/19 to 2019/20

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

Maximum Authorised Expenditure In year	Expenditure Delivered	In Year Slippage (£m)	Year End Net Slippage (£m)	Total Slippage (£m)	Slippage as %age of budget
192.4	**128.5**	9.9	19.6	29.5	15.3%
		In Year Reprofile (£m)	**Year End Net Reprofile (£m)**	**Total Reprofile (£m)**	**Reprofile as %age of budget**
		32.6	1.8	34.5	17.9%

As can be seen total slippage was £29.5m or 15.3%. This is an increase of 3.3% from the 12% in 2018/19.

The major contributory factors to the **Year End Net Slippage** figure are set out at sections 3, 4 and 5 above. Key elements of the **In-Year Slippage** are largely identified in the changes between month 9 and month 12 at Section 2.2 above.

A level of slippage is inevitable in any capital programme and, as identified above, key contributors to the figure in 19/20 have been factors outside the Council's control.

The major contributory factors to the **Year End Net Re-profile** relate to:

- £1.2m on the Housing Revenue Account scheme budgets for Windows, Kitchens and Capitalised Repairs Allowances. These were not required and have therefore been moved into 2020/21.
- £0.4m allowance for furniture and equipment at Astrea Academy. This will be drawn down by the school as required.

Key elements of the **In-Year Re-profile** amount were:

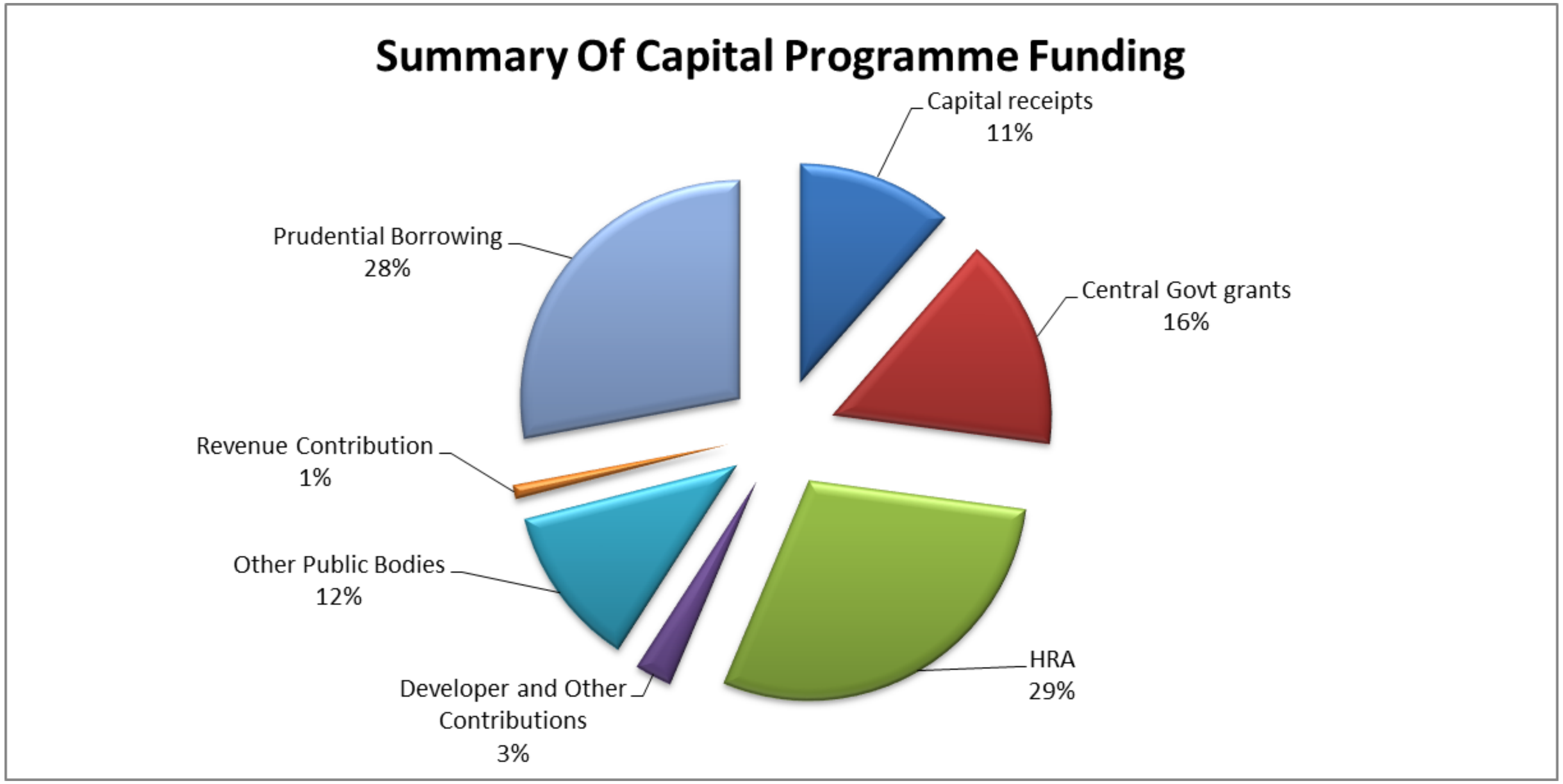
- New Build Council Housing Phase 4 - increased costs at tender delayed the decision to commence the scheme (£8.5m).
- The strategic decision to deliver the Heart of The City II Programme in phases, rather than a single "big bang" development (£13.2m).
- Schemes identified as 'reprofiled' between Month 9 and Month 12 identified in section 2.2 (above). Suitable brownfield sites did not come to market, and changing priorities in the housing investment programme meant that monies on general 'Q numbers' were moved to next year.

7 FUNDING AND RESOURCES

How the capital programme is funded; key risks to note

7.1 Breakdown of capital funding

Capital expenditure in 2019/20 totalled £128.5m, broken down in the proportions set out below:



Taking each of the key funding streams in turn:

A Prudential borrowing

The £36m of Prudential Borrowing makes up just over a quarter of the capital programme. This funds:

- Heart of The City II scheme (£20.1m). 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 (£13.8m).
- Vehicle Fleet upgrade to improve air quality and reduce repair costs (£2.3m).

B Capital receipts

Expenditure funded by capital receipts (£14.7m) has been directed mainly to investments in existing council housing stock (£5.9m), investment in Housing Growth (£3.3m), investment in the corporate estate (£2.2m), repayment of historic loan arrangements (£1.3m) and investment in transport infrastructure (£1.2m)

C Central government grants

The majority of the £20.1m funded by Central Government Grants relates to grants from the Department for Education for the creation of new school places and maintenance of schools' infrastructure (£8.7m).

However, it should be noted that following the decision to cashflow the creation of new school places in advance of government funding awards has required the use of £6m of corporate resources to date (see section 7.2 below).

The remainder of Government Grant Funding relates to:

- Addressing Social Care Issues through Disabled Facilities Grants and introduction of the Whole Family Case Management System (£4m)
- Purchasing of land for Housing Growth (£4.2m)
- Contributions towards Clean Air Targets (£2.3m)

D Housing Revenue Account (HRA)

The HRA is the account in which a Council's housing revenue (e.g. tenants' rent) and housing costs (e.g. property management and maintenance) are kept. It is separate from the General Fund. Expenditure of £37.6m has been incurred on the maintenance of Council housing stock.

E Other Public Bodies

These contributions totalling £15.3m are made up of:

- various grants from non-departmental government bodies (£7.6m) such as the Environment Agency in respect of flood alleviation schemes, and Homes England in relation to Affordable Housing Grants and the Cladding Remediation Grant.
- Sheffield City Region grants (£7.1m) which includes Sheffield City Region Investment Funding for the 'Grey to Green 2' and 'Inner Relief Road Junctions' Schemes, Transforming Cities Transport Funding and Local Transport Plan Funding.
- Contributions from other local authorities on behalf of whom SCC operate loans schemes (£0.6m)

7.2 Key risks to note

School Places Expansion Programme

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

Based on best estimates of future grant allocations, it was anticipated that approximately £22.2m of cashflow resources would be required in 2018/19. These would be repaid by future grant allocations by 2021/22.

Following slippage in the programme (and work with our auditors), we agreed accounting treatments that will reduce the overall cashflow requirement to approx. £8.4m. However, the recent announcement of the government funding for 2021/22 is less than had been anticipated, at only £4.6m. This will leave £3.9m of cashflow still to be repaid the end of 2021/22.

COVID-19

The full impact of the COVID-19 outbreak will not become apparent for some time. However, some key potential risks in relation to the capital programme have been preliminarily identified:

- Increase in scheme costs on projects in progress – possible compensation payments for delay or increased costs resulting from new, socially-distant ways of working.
- Reduced overall investment capacity - costs of tendered works may be inflated to accommodate risk and supply chain issues.
- Weakened economy may impact negatively upon level of capital receipts.
- 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 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.

8 IMPROVING OUR PERFORMANCE

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

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

Only fully-funded projects can enter the capital programme

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

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

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

Ongoing challenge and support for project managers' forecasting

Work has taken place in 2018/19 with project managers to challenge their highlight reports and forecasts, with the aim of improving performance. This work has continued throughout 2019/20 and will remain a key focus for 2020/21.

Improved reporting

We introduced a 'Variance Report' in 2018/19 to review all projects which were at variance for budget or delivery profile. This was a useful exercise, but proved disproportionately resource-intensive to maintain. We have developed new reports to quickly highlight areas of concern to enable swift remedial action to be undertaken.

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 both the financing and delivery of a project.

Revisiting business units to distinguish slippage from re-profiling

The historical elements of this exercise have now been completed. 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.

Revisiting our commissioning process

Working with colleagues in across the Council, we are working with elected Members to ensure our commissioning processes are further refined, minimising the risk of delay to projects later on in the governance process. We are improving our strategic approach to commissioning capital projects to ensure we make best use of limited resources. We will revisit this in the light of COVID-19, to ensure the Council helps the City's recovery.

Tackling delivery risks

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

More effective working with strategic partners

We will 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 the elements of the Transport capital programme.

9 GLOSSARY

Definitions of key terminology

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

Sheffield City Council

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Appendix 3

Treasury Management Outturn Report 2019/20

Contents Page

Key Messages

All investment and borrowing transactions were in line with the principles approved 2019/20 Annual Treasury Strategy Statement and the Annual Ethical Investment Strategy.

Borrowing for the year was above expectations. Under normal circumstances borrowing for Cap expenditure would have been lower than planned. However, the impact of Coronavirus necessitated bringing forward borrowing planned for 2020/21 to protect the authority from unknown costs and risk and to benefit from the lower interest rates on PWLB borrowing.

During 2019/20 Bank of England Base Rates remained at 0.75% and inflation regularly dropped below target levels (2%). Interest rates remain at historically low levels though.

Director of Finance and Commercial Services' Overview

The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2018/19 Outturn Report and a Mid-Year Treasury Management Update Report.
The regulatory environment places responsibility on Members for the review and scrutiny of TM policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The Strategy for 2019/20

The expectation for interest rates within the Treasury Management Strategy for 2019/20 anticipated that the Bank Rate would only increase by 0.5% during the financial year, however the Bank Rate remain unchanged at 0.75% throughout the year. Consequently Investment returns fell short of the 1% target set in the TMS

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

By August / September rates had fallen to new lows and the authority chose to borrow £40m of the planned £71m borrowing. This struck a balance between controlling the under borrowed position and avoiding the cost of carry from excessive cash reserves.

The impact of the Coronavirus in March 2020 saw the Authority borrow a further £40m; as liquidity issues became a priority as the level of uncertainty increased. The implications of the coronavirus will be covered below.

The Council operated within the Prudential Indicator Limits for 2019/20 set by the authority (see annex for details of limits).

The impact of the Coronavirus outbreak has yet to fully emerge, but has increased the need for liquid funds. The Council took additional borrowing to allow for this need; prior to Central Government announcing that they would make additional funding available.	<u>Coronavirus Impact</u> The full extent of the impact from Coronavirus will not be known for some time. However the immediate risk to the financial markets coupled with additional burdens on Council spending and uncertainty over funding have increased the need to carry larger cash balances. Consequently the Council borrowed £40m in March that would normally not have been taken until early in the following financial year or even later. This means there will be some interest cost incurred as a result of carrying these additional funds. Fortunately, the borrowing was taken at very low rates and was planned to be taken during 2020/21 anyway. This borrowing has the benefit of reducing the council exposure to interest rate risk from financial markets that are likely to see increased volatility in the short to medium term. <u>Recommendation</u> 1. Approve the actual 2019/20 prudential and treasury indicators presented in Annex 2 of this report. 2. Note the annual Treasury Management Outturn report for 2019/20.

Key Messages

Slippage in major capital investment projects, such as the Heart of the City Programme, as well as accounting adjustment to PFI balances, has seen the CFR reduce slightly this year.

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

External Borrowing was higher than budgeted for as the council looked to cover the financial risks associated with Coronavirus towards the year end.

Investment balances also increased as a result of this additional borrowing with funds kept in highly liquid assets.

Outturn Report

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

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

The table below shows the outturn for 2018/19 and 2019/20, and the 2019/20 budget position including PFI liabilities.

	2018/19 Actual (£m)	2019/20 Actual (£m)	2019/20 Budget From TMS (£m)
General Fund CFR (non PFI)	791	807	830
General Fund - PFI Liabilities	400	373	390
Overall General Fund CFR	1191	1180	1220
HRA CFR	346	346	346
Total CFR	1537	1526	1566

After adjusting for PFI liabilities of £373m, the overall underlying financing requirement of the Authority was £1,180m (a decrease of less than 1% on the 2018/19 figure). The main variance to the TMS was as a result of adjustments to the value of PFI Liabilities recommended by auditors.

Actual capital investment for 2019/20 was £128.5m, slightly down on the £142.5m set out in the TMSS. Capital Expenditure financed by borrowing was £35.9m, £14.7m lower than anticipated at the start of the year.

Gross external debt, excluding PFI liabilities, has increased by a net £65m to £868m, after accounting for maturing loans, when compared to 2018/19.

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

Key Messages:

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

UK Base Rates were increased to 0.75% in August 2018, but there have been no further increases since, they were cut to just 0.1% in March 2020 and the likelihood of future increases looks low in the near term.

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

Brexit remains a cause of major uncertainty in the UK.

Coronavirus will cause a global recession, though length and severity of this remains uncertain.

External Context: The Economy and Interest Rates

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. Despite a new Prime Minister in October 19 and a general election in December 19, there still remains much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

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Key Messages:

Investment rates did not improve significantly during 2019/20 and anticipated increases to the UK bank rate did not happen – in fact it was dramatically cut in March 2020 as a response to the Coronavirus

There was an increase in market volatility during 2019/20, driven by both domestic politics and cooling in the global economy

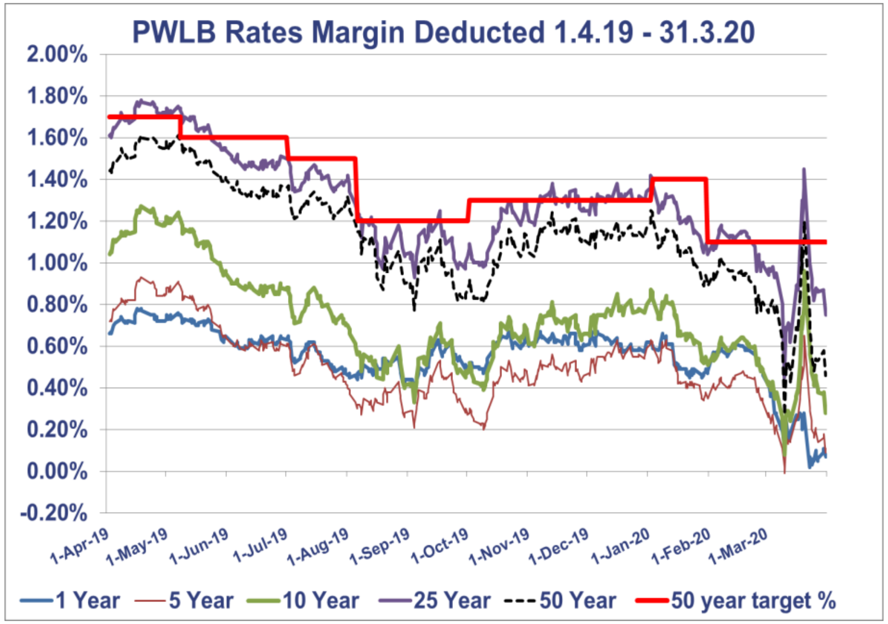
Margins on PWLB loans increased from 0.8% to 1.8% in Oct 19.

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

Borrowing and Investment Rates

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would rise from 0.75% to 1.25%. Expected growth was subdued by issues around Brexit and the bank rate did not increase, in fact it was dramatically cut in March as a response to the Coronavirus. Consequently Investment returns underperformed against the Treasury Strategy

The TMSS predicted modest increase in borrowing rates during the year but with significant volatility month on month (an example of this volatility in PWLB rates is shown in the graph below). This increase did not materialise and rates fell stedily through to September 2019, at which point HM treasury increased the margin on rates from 0.8% to 1.8%. The council borrowed £40m just before this increase. A further £40m of borrowing was taken in March 2020 to increase the councils liquidity to help guard against the impact and uncretainty from Coronavirus.



Key Messages:

The strategy to reduce under-borrowing this year meant we undertook borrowing to more than cover the cost of the capital programme

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

Borrowing Outturn for 2019/20

The table below shows the breakdown for capital expenditure that should have been financed by external borrowing during the year. However, SCC borrowed a net £65m to support the Council's capital investment programme. The result of this additional borrowing is that the council's under borrowed position reduces; as does the associated interest rate risk the Authority is exposed to.

	£000	£000
Original borrowing estimate per 19/20 TMS		**50,600**
Expenditure on Schemes creating a Borrowing need:		
Heart of the City	20,118	
Leisure Facilities	13,767	
Essential Compliance	2,288	
Other	312	
Total Borrowing needed:		34425
Variance to TMSS		**- 16,175**

The 2019/20 TMS aimed to keep under borrowing largely the same. However the need for liquidity following uncertainty from the Coronavirus made a shift in strategy necessary. The low interest rate environment also made borrowing earlier than planned a realistic option.

Under borrowing remains at sustainable levels, but still carries significant interest rate risk – if and when interest rates do begin to rise. However, significant rate increases are not anticipated in the near future.

Key Messages:

Net borrowing for the year was £65.6m

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

The new borrowing undertaken is for longer duration, but the interest rates continue to be attractive and are much lower than the council average borrowing rate.

The PWLB added an additional 1% to their margin in Oct 19. Underlying rates remained low.

Details of the borrowing taken and repaid in 2019/20 are shown in the table below:

Loan Repayments and Borrowing 2019/20

New Borrowing				Loans Repaid		
Counterparty	Amount (£000)	term (Years)	Interest Rate (%)	Counterparty	Amount (£000)	Original Rate (%)
PWLB	£5,000	42	1.75	PWLB	£450	12.5
PWLB	£5,000	42	1.75	PWLB	£4,000	1.85
PWLB	£5,000	43	1.74	Derbyshire CC	£5,000	1.98
PWLB	£5,000	50	1.73	SCR CA	£5,000	1.90
PWLB	£5,000	20	1.75			
PWLB	£5,000	21	1.77			
PWLB	£5,000	37	1.72			
PWLB	£5,000	41	1.69			
PWLB	£5,000	19	2.69			
PWLB	£5,000	20	2.72			
PWLB	£5,000	22	2.76			
PWLB	£7,000	23	2.77			
PWLB	£5,000	24	2.56			
PWLB	£5,000	25	2.57			
PWLB	£8,000	39	2.46			
	80,000				**14,450**	
Net borrowing	**65,550**					

Borrowing rates remain historically low. Current rates and forecasts for future rates have remained lower than anticipated in the Treasury Strategy. £40m of the above borrowing was taken as planned in September at exceptionally low rates. Following this, in Oct 2019, HM Treasury increased the margin on PWLB loans, effectively adding an additional 1% to all PWLB borrowing. A further £40m was borrowed in March 2020 to manage the emerging risks already discussed at rates that remained attractive.

The authority has acted proactively to secure its liquidity requirements. While this means interest costs are incurred earlier than anticipated, borrowing would have been required early in 2020-21. Any additional borrowing will be taken cautiously, whilst keeping a close watch on forecasts of longer-term rates. If rates are forecast to increase significantly in the near future, we will take out additional long-term debt in advance of these increases, to lock in the current low interest rates.

The exceptionally low rates achieved on the mid-year borrowing and higher than forecast investment balances generated savings within the capital financing budget this was offset by additional borrowing in March 2020 but still resulted in an underspend for the year. This underspend was used to help support the corporate budget. The average rate of interest paid on the Council's external debt has decreased to 3.90% in 2019/20 compared to 4.04% 2018/19.

As at 31 March 2020, the loans portfolio, excluding PFI liabilities, totalled £868m, and indicates the Council is under borrowed by £285m – down £49m on 2018/19 (£334m), this is a result of borrowing above the requirements of this year's capital programme and MRP payments.

Key Messages:

There has been no debt rescheduled during 2019-20

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

Investment balances increased by £54m compared to 31 March 2019 – primarily as a result of PWLB borrowing taken in March 2020 and additional grants related to the Coronavirus.

Investment returns remain subdued – due to market conditions and the policy to invest in low risk counterparties.

Debt Rescheduling

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

Investment Outturn

Ethical Investment Policy

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

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

Investments held by the Council

The Council maintained an average balance of £145m of internally managed funds compared to the Council only having funds for day to day cash flow purposes. As at 31st March 2020, investments were £168m; up £54m on the previous year. However the late borrowing and additional government grant has inflated this figure. The Council had no liquidity difficulties during the year.

The internally managed funds earned an average rate of return of 0.85% against a budgeted return of 1.0%. This should still be judged a good achievement as the expected increases to underlying bank rates did not materialise.

The Council would not plan to have such high cash balances under normal circumstances, but the strategy of increasing liquidity is essential to deal with the dramatic increase in uncertainty risks associated with the Coronavirus.

Annex 1: Outturn Position with General Fund & HRA Split

The overall Treasury position as at 31 March 2020 (excluding debt from PFI and finance leases) split across the General Fund and the Housing Revenue Account was as follows:

Authority	**31 March 2019 Principal**	**Rate/ Return**	**31 March 2020 Principal**	**Rate/ Return**
Total debt	803	*4.04%*	868	*3.92%*
CFR	1137		1153	
Over / (under) borrowing	-334		-285	
Total investments	114	*0.76%*	168	*0.85%*
Net debt	689		700	

General Fund	**31 March 2019 Principal**	**Rate/ Return**	**31 March 2020 Principal**	**Rate/ Return**
Total debt	518	*4.00%*	590	*3.97%*
CFR	791		807	
Over / (under) borrowing	-273		-218	
Total investments	114	*0.48%*	168	*0.76%*
Net debt	404		422	

HRA	**31 March 2019 Principal**	**Rate/ Return**	**31 March 2020 Principal**	**Rate/ Return**
Total debt	285	*4.54%*	279	*4.57%*
CFR	346		346	
Over / (under) borrowing	-61		-67	
Total investments	0	*n/a*	0	*n/a*
Net debt	285		279	

Annex 2: Prudential and Treasury Indicators

During 2019/20, the Council complied with its legislative and regulatory requirements including the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2018/19 Actual £'000	2019/20 Actual £'000	2019/20 Estimate (TMS £'000
Capital expenditure:			
General Fund	*148,812*	*71,360*	69,800
HRA	*59,511*	*57,126*	72,700
Total	*208,323*	*128,486*	142,500
Capital Financing Requirement:			
General Fund	1,191,113	1,180,415	1,220,000
HRA	345,914	345,867	345,867
Total	1,537,027	1,526,282	1,565,867
Gross debt	1,203,082	1,241,400	1,280,100
Net External debt (gross debt less investments)	1,089,088	1,073,277	1,209,300
Investments			
Longer than 1 year	0	0	Nil
Under 1 year	113,994	168,123	70,800
Total	113,994	168,123	70,800

The Council's net external debt (loans plus PFI balances) has decreased by £15.8m, whilst our overall need for borrowing, which is represented by the CFR, has increased by £10.7m.

Movements in Net Debt	2019/20 Movement £000
New Borrowing	65,550
Less PFI Repayments	-27,232
Less increase in Investment	-54,129
Total	-15,811

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

Net Debt has decreased despite taking on a larger than expected level of new borrowing in year. Funds received from the £40m taken in March 2020 remained unspent at year end and increased investments, consequently reducing the net position.

These deposits were placed with an array of AAA rated, instant access money market funds and fixed-term and call account deposits with banks. This investment policy meant that we sought to minimise security risks and increase the liquidity of our deposits. Deposit returns were relatively low at 0.85% (albeit above the average UK Bank Base Rate of 0.75% during 2019/20).

External debt payments haven't changed dramatically in year.

An accounting adjustment to MRP on PFI arrangements has increase costs. This will have a one year effect.
MRP is now being charged, on parts of the HotC II project and this will increase as more of the overall scheme is classified as being in use.

Financing Costs As a proportion of Revenue

	OUTTURN	
	2018/19	2019/20 Act
Ratio of financing costs to net revenue stream:	£'000	£'000
Non-HRA Including PFI)	17.7%	20.9%
Non-HRA Excluding PFI)	8.6%	9.2%
HRA	9.5%	8.9%

The information in the above take account of the actual costs associated with external loans plus accounting adjustments for items such as MRP and premiums and discounts adjustment.

The Increase of 3.2% on Non HRA including PFI is largely because of an increase in MRP associated with PFI arrangements following recommendation from auditors. The PFI MRP increased to £27.2M (£11.8m 2018/19) but should revert to more normal levels next year.

The cost excluding PFI arrangements has also increased; the main factor in this is that MRP is now being charged on elements of the Heart of the City Project.

HRA has seen a small reduction in costs, debt has reduced slightly but the main reduction comes from a drop in charges associated with premium and discount charges.

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