# MEDIUM TERM FINANCIAL STRATEGY: 2017/18 TO 2021/22

## Purpose of the Report

1. The purpose of the Report is to:

    - provide Members with details of the forecast financial position of the Council for the next 5 years;

    - recommend the approach to budgeting and business planning that will be necessary to achieve a balanced budget position over the medium term; and

    - recommend that Members accept the DCLG offer of certainty over Revenue Support Grant for the 3 years to 2019/20.

## Executive Summary

2. The Medium Term Financial Strategy (MTFS) sets out the Council's latest financial forecast for the period 2017/18 to 2021/22. Over the next 5 years, it is estimated that the Council's cumulative budget gap will increase from circa £40m in 2017/18 to £116m by 2021/22. This takes account of changes to the Council's main sources of income, as well as pressures on services arising from inflation, demand or legislative changes such as the increase to the minimum wage.

3. The projected budget gap for the Council's social care services is caused by the increase in new funding (i.e. social care precept and Improved Better Care Fund grant) failing to keep pace with the inexorable rise of cost pressures (especially due to national living wage inflation as well as demand). This underlines the importance of lobbying the Government for the Improved BCF Grant to be brought forward to 2017/18.

4. This year the MTFS is recommending a new approach to business planning that will be necessary to achieve a balanced budget position over the medium term. Each portfolio is developing a four-year programme of transformative strategic changes. By following this approach, the portfolios' proposals will remain consistent with the Council's Corporate Plan.

5. One of the critical success factors of this new approach is maximising certainty and stability over the Council's financial future. For this reason the MTFS recommends that the Council applies to take up the offer of a multi-year settlement from the Government – see the 'Efficiency Plan' section for further details.

## Recommendations

6. It is recommended that Members:

    - Note the forecast position for the next 5 years;

    - Agree the approach to budgeting and business planning;

- Agree to delegate authority to the Executive Director of Resources, in consultation with the Cabinet Member for Finance & Resources, to apply to take up the multi-year settlement supported by the Efficiency Plan at **Appendix 6**;

- Endorse the call for Improved Better Care Fund Grant to be brought forward;

- Agree the following approach to capital planning:

    - Maximise flexibility in capital resources including New Homes Bonus, capital receipts and Community Infrastructure Levy (CIL) to ensure that Council-wide objectives are achieved.
    - Review policies in relation to Affordable Housing, CIL and New Homes Bonus to ensure that the generation of these funding streams is optimised.
    - Reaffirm the existing Corporate Resource Pool (CRP) allocation principles.

## Background

7. The last report on the Medium Term Financial Strategy (MTFS) was considered by Cabinet on 14 October 2015. The MTFS has been updated to reflect the budget decisions of Full Council in March 2016.

8. This updated MTFS sets out the broad issues that will impact on the Council's financial position for 2017/18, outlines some of the decisions facing the Council over the medium term and sets out the planning parameters for the next 5 years.

9. The full details of the provisional Local Government Finance Settlement for 2017/18 will not be known until December 2016, although a range of technical issues concerning the Settlement are currently subject to consultation[1]. However as part of the final Local Government Finance Settlement for 2016/17, announced on 8 February 2016, the Government issued an indicative set of Revenue Support Grant (RSG) figures for the four years to 2019/20.These were accompanied by an offer of a guarantee of a multi-year settlement for any authority which signed up by 14 October 2016. The only condition of this offer is that the authority will need to publish an 'efficiency plan'. Further details can be found in the Efficiency Plan section of this report (from paragraph 34). In light of heightened economic uncertainty in the wake of the EU Referendum result, it is recommended to apply to take up the Government's offer in order to gain certainty about future years' RSG, which will provide a more solid platform for medium-term financial planning. The proposed Efficiency Plan can be found in **Appendix 6**.

10. In the wake of the EU Referendum result in late June 2016, the then Chancellor hinted that the Autumn Statement in November/December 2016 would need to

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[1] DCLG: 'Local government finance settlement 2017 to 2018: technical consultation' (15 September 2016)

reflect the impact of "Brexit" on the nation's finances. To what extent this will result in further public sector spending cuts is not yet known. However, in a further speech on 1 July the then Chancellor stated that the target of achieving a budget surplus by 2020 would have to be deferred. This statement has subsequently been reinforced by the current Chancellor and Prime Minister, and it suggests that the Government may be willing to opt for further borrowing instead of tax rises or spending cuts.

11. We have now reached a watershed in local government finance. Six years into austerity, the national deficit reduction programme has raised many questions about the purpose and sustainability of funding for local authorities. The Government's response to these questions is two-fold:

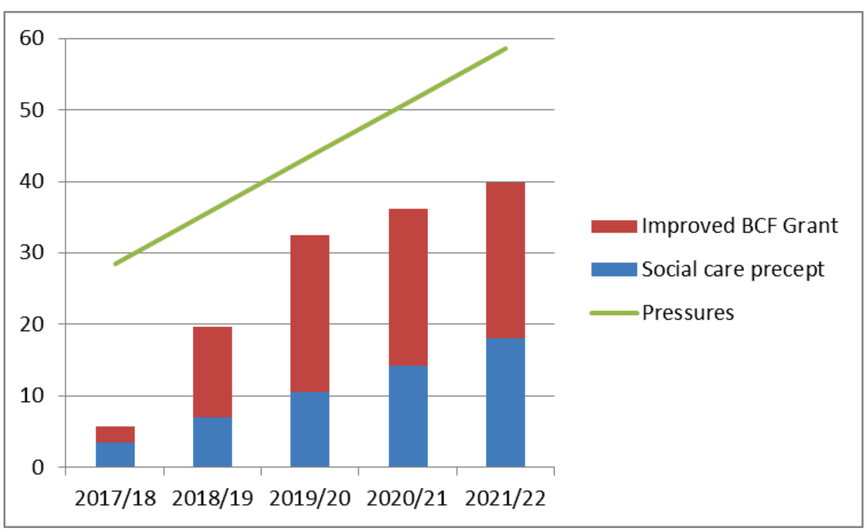
    a. To devolve 100% of business rates to the local government sector by 2020, and;

    b. To provide local authorities with responsibility for adult social care additional flexibility around council tax increases (the 2% social care precept).

12. Sheffield City Council is actively participating in the design of the new business rates system and has been publicly recognised as a prospective 'pilot' authority[2].

13. However, the social care precept (introduced by the Government in 2016/17) on council tax increases does not go far enough in addressing the social care funding crisis in the longer term. This is illustrated by the chart below, which shows the projected budget gap for the Council's social care services, caused by the increase in new funding (i.e. social care precept and Improved Better Care Fund grant) failing to keep pace with the inexorable rise of cost pressures (especially due to national living wage inflation and demand).

Figure 1 – Comparison of Social Care Cost Pressures and New Funding (£m)




[2] See para 2.31 on page 13 of "Self-sufficient local government: 100% Business Rates Retention" published on 5 July 2016 (this document is also referenced in the Bibliography at the end of this report)

14. This underlines the importance of lobbying Government for the Improved BCF Grant to be brought forward to 2017/18. Indicative allocations of this grant were published in the 2016/17 Local Government Finance Settlement. The first instalment (circa £2m) will come through in 2017/18, and it will increase to circa £13m in 2018/19 and then £22m in 2019/20. As the chart above shows, the Council would require all of the 2019/20 grant allocation to be brought forward to 2017/18 in order to close the funding gap.

15. The Council's view is shared by The King's Fund (an independent charity which works to improve health and social care in England) in its latest report on the financial sustainability of social care services for older people:

    "*…to achieve 'more with less' is important and necessary but our conclusion is that these efforts will not in themselves be sufficient to meet immediate funding needs. In the words of NHS England Chief Executive, Simon Stevens, 'There is a strong argument that were extra funding to be available, frankly we should be arguing that it should be going to social care.' The forthcoming Autumn Statement should recognise the likelihood of major provider failure over the next two years by bringing forward the additional Better Care Fund money planned from 2018/19 and accelerate progress towards establishing a single pooled budget for health and social care in all areas by 2020.*"[3]

16. That is why – as referenced in paragraph 6 – one of the main recommendations of this report is to call on the Government to accelerate the payment of Improved BCF grant to local authorities. This has also been done via the Council's formal response to the consultation entitled "Self-sufficient local government: 100% business rates retention", which was launched on 5 July 2016. This is one of two major interdependent publications launched by DCLG on the same day.

17. The consultation seeks views on the implementation of the Government's commitment to allow local government to retain 100% of the Business Rates that they raise locally. Specifically, this consultation seeks to identify some of the issues that should be kept in mind when designing the reforms. The other publication, "Fair Funding Review: Call for evidence on Needs and Redistribution" is also relevant to Business Rates reform. The aim of the review is to evaluate what the needs assessment formula should be in a world in which local government spending is funded by local resources not central grant.

18. Both documents demonstrate that local government finance is subject to fundamental reform in the middle of the period covered by this MTFS. This reform, as well as many other factors, creates too many variables to predict the future with certainty. This report therefore includes 'sensitivity analysis', the purpose of which is to show our financial projections in three different scenarios: 'best' (most optimistic view), 'base' (our assessment of the most likely outcome) and 'worst' (most

[3] Page 78, 'Social care for older people: home truths' (The King's Fund, September 2016)

pessimistic view). We have also tried to ensure that all key assumptions and risks are clearly stated, and that those assumptions have been benchmarked against our peer group and independent advisors' forecasts.

19. Regardless of the outcome of the forthcoming Settlement, one point is clear: with the Government's ongoing commitment to spending cuts in unprotected public sector budgets as part of the deficit reduction programme, in the future the Council's financial position will be significantly determined by the level of business rate income and council tax income, each of which may be subject to considerable volatility. This injects a higher level of risk and uncertainty into financial planning. The key financial risks and assumptions associated with the MTFS are summarised as appendices to this report.

20. On 2 October 2015 it was announced that the Council and the other eight authorities in the area had successfully negotiated a Sheffield City Region devolution deal with HM Treasury. One of the headlines of the deal was the ability to keep 100% of the growth in Business Rates from 2016/17. The detail of this and other aspects of the deal are being worked through, especially as business rates income is complex and subject to a wide range of variable factors. Therefore, the business rates figures included in the MTFS have not been revised at this stage. However, as further details become available, any changes will be fed into later updates of the MTFS.

## Summary

21. Every year the Council is required by law to set a balanced budget. The approval of the Council's budget in March is the culmination of the annual business planning process. This report seeks Cabinet endorsement of the proposed approach to this year's business planning process, which differs from previous years. For further details, please see paragraph 76 onwards.

22. The first step in the business planning process for 2017/18 is to estimate the gap between the Council's resources and expenditure. In addition to cuts to Revenue Support Grant of almost £100m over the last 3 years, we now have strong indications that the remaining RSG of £90.6m will reduce to £36.9m by 2019/20. The cut to RSG in 2017/18 will be £22.8m. However, due to corporate savings the Council is able to make, and additional income forecasts, it is estimated that the Council's budget gap for 2017/18 will be reduced to circa £13.5m. This estimate reflects expenditure variations such as the cost of half increments, pensions related costs and expansion in the Streets Ahead contract. However, this does not include pressures on services arising from inflation, demand or legislative changes such as the increase to the minimum wage. These pressures are becoming harder to deal with as budgets reduce and are currently forecast at approximately £26.5m for 2017/18. Further details on the gap can be found from paragraph 44 as well as in **Appendix 1**.

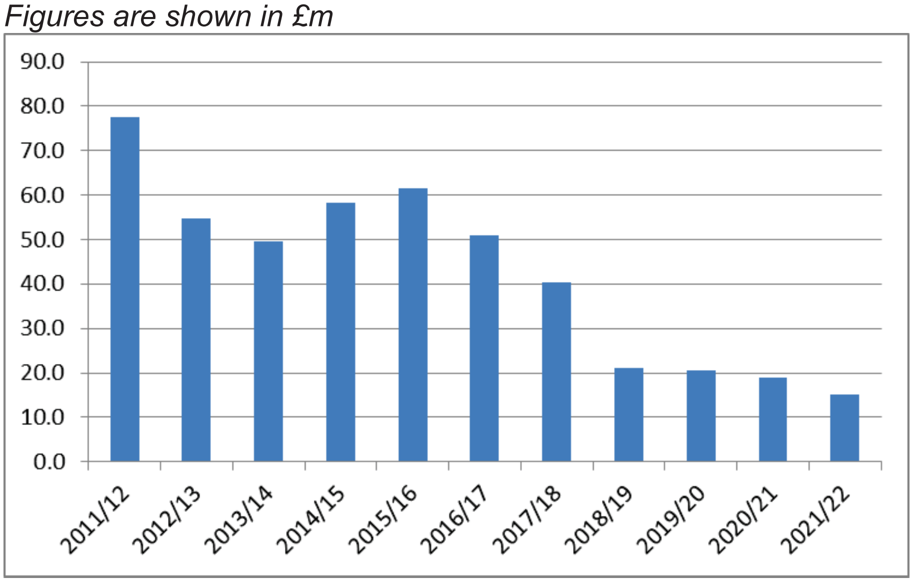
Figure 2 – Summary of Projected Budget Gap for the 5 years to 2021/22

| | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** | **2020/21 £m** | **2021/22 £m** |
|---|---|---|---|---|---|
| **Reductions in RSG** | 22.8 | 15.4 | 15.5 | 0.0 | 0.0 |
| **Business Rates & Council Tax Income** | (7.7) | (9.5) | (7.2) | (6.2) | (6.2) |
| **Corporate Grant movements** | (2.2) | (10.4) | (9.3) | 0.0 | 0.0 |
| **Expenditure variations** | 0.6 | 9.1 | 5.1 | 8.9 | 5.0 |
| **Budget Gap** | **13.5** | **4.6** | **4.1** | **2.7** | **(1.2)** |
| Balance B/F | **0.0** | 13.5 | 18.1 | 22.2 | 24.8 |
| **Cumulative position** | **13.5** | **18.1** | **22.2** | **24.8** | **23.6** |

23. The chart below shows how the forecast gap for the next 5 years from 2017/18 to 2021/22 compares to the revenue budget savings for the last 6 years from 2011/12 to 2016/17.

Figure 3 – Comparison of Revenue Budget Savings in the 6 Years to 2016/17 vs Projected Budget Gap for the 5 years to 2021/22 (including an estimate of pressures in future years)

*Figures are shown in £m*

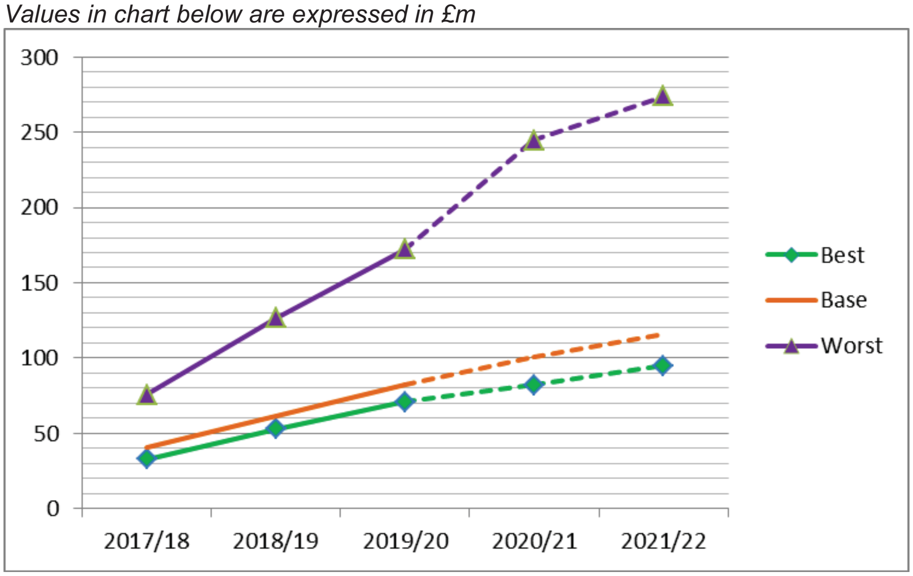



24. Whilst the forecast gap for 2017/18 appears to be relatively small compared to the budget savings required in each of the last 6 years, it should be noted that there are around £26.5m of portfolio pressures, plus a further £15m of risks which, if they crystallised, could increase the total budget gap to around £55m, as shown above.

25. As shown in Figure 4 there is a variation of at least £179m in the cumulative budget gap by 2021/22 between the best and worst case scenarios. The principal factor which underpins the scale of variation is our assessment of the extent to which the Council will be affected by loss of Central Government funding (primarily RSG and Public Health) coupled with potential deterioration in business rates. We are entering uncharted territory in the final 2 years of the 5-year period covered by this MTFS. We will continue to monitor developments in respect of business rates reform and update our projections accordingly.

Figure 4 – Illustration of Sensitivity of Assumptions

*Values in chart below are expressed in £m*




## Reform to Local Government Finance

26. On 5 July 2016 DCLG launched two consultations, both of which have far-reaching implications for the future of local government finance. The two consultations cover:
    a. 100% localisation of business rates, including additional responsibilities
    b. Fair funding

27. A summary of the topics covered by each consultation is shown in the section below. As there are many options subject to further discussion, with no working model available from which to make any robust assumptions, it is not possible to take account of either consultation whilst preparing the financial projections in this MTFS. However, we do have officers directly involved in the working groups jointly chaired by DCLG and LGA, the members of which are charged with developing further detailed options and modelling the potential scenarios.

28. The Council has responded to both consultations, the closing date for which was 26 September 2016.

100% localisation of business rates

29. This consultation contains thirty six questions which cover a broad range of themes, the majority of which have far-reaching implications for the Council as well as the City Region. These themes include:
    - The devolution of responsibilities;
    - The operation of the system, including how growth is rewarded and risk is shared;
    - Local tax flexibilities;
    - Accountability and accounting in a reformed system.

30. The first theme – devolution of responsibilities – provides opportunities to those authorities who wish to take greater control of functions which they believe they can manage more efficiently and effectively than central government. However, "to ensure that the proposal for 100% business rates retention is fiscally neutral, local government will need to take on new responsibilities to match this increased income, and existing central government grants will need to be phased out."[4]

31. One of these 'existing' central government grants is the Improved BCF grant, which is due to be rolled out directly to local government from 2017/18 to ensure that health and social care services work together to support older and vulnerable people. When this grant was announced in the 2016/17 Settlement, the LGA made the following statement:

    "*There is a continuing lack of proportionality between additional funding for the NHS and adult social care. While much of the funding for the NHS is frontloaded, additional resources from the Better Care Fund will not be available until 2017 and only £105 million will be available in 2017/18. This, with the incremental nature of the new adult social care council tax precept, means a further two years of pressure on a system that is already under significant strain. To ease this pressure the £700 million of new funding in the Better Care Fund must be brought forward to 2016/17.*"[5]

32. As has been argued earlier in this report, the Council agrees that this new funding should be brought forward as soon as possible in order to address the social care funding crisis.

Fair Funding

33. The Fair Funding Review will address the following issues:
    - What is meant by relative 'need' and how should it be measured?
    - What are the key factors that drive relative need?

[4] Paragraph 3.3 on page 15 of "Self-sufficient local government: 100% business rates retention"
[5] Page 2 of "Local Government Association briefing, House of Commons debate, final Local Government Finance Settlement 2016/17" (10 February 2016)

- What should the approach be for doing needs assessments for different services?
- At what geographical level should a needs assessment be done?
- How should ‘resets’ of the needs assessment be done?
- How, and what, local government behaviours should be incentivised through the assessment of councils’ relative needs?

## Efficiency Plan

34. Since central government cuts began in 2010, the local government sector has been calling on central government to provide as much certainty as possible with regard to the finance settlement in order to plan their spending priorities strategically.

35. In the 2016/17 Local Government Finance Settlement these concerns were recognised, and an offer of a ‘guaranteed minimum grant envelope’[6] for the four-year period from 2016-20, covering RSG, transitional funding and Rural Services Delivery Grant, would be made available to local authorities on the condition that they submit an efficiency plan by 14 October 2016.

36. The then Secretary of State for Communities & Local Government wrote to all Council Leaders on 10 March 2016, clarifying his expectations of what an efficiency plan should contain:

    “*…they [efficiency plans] should be locally owned and locally driven. But it is important that they show how this greater certainty can bring about opportunities for further savings. They should cover the full 4-year period and be open and transparent about the benefits this will bring to both your council and your community. You should collaborate with your neighbours and public sector partners and link into devolution deals where appropriate.*”

37. DCLG did not issue guidance on what an efficiency plan should contain. The consensus across local government is that this is welcome, because it gives the sector sufficient flexibility to set out its plans as it sees fit.

38. The recommendation is to apply to take up this offer because it provides the Council with more certainty when planning the implementation of its strategic priorities. For example, some transformation programmes will take several years to develop from concept design to implementation, with additional time programmed to ensure that proposals are rigorously tested and consulted with external partners. A lack of certainty would undermine this process.

39. Accepting the Government’s offer also mitigates the risk of being left with a disproportionate share of reduced RSG.

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[6] Page 1 of “Preparing And Submitting An Efficiency Plan” (June 2016) by CIPFA/LGA

40. In completing the Council's efficiency plan, the following questions have been considered:
    1. What are the targets, and how clear are they?
    2. What role is partnership working expected to take?
    3. What aspirations does the Council have in relation to transformation programmes?
    4. How does the Council intend to achieve its efficiencies?
    5. Is there clear ownership and accountability?
    6. How robust is the process for measuring, managing and monitoring the outcomes of the plan?

41. The Council's efficiency plan has been produced alongside the annual MTFS because the process for compiling the MTFS involves as a matter of course collating responses to the above questions.

42. For instance, the MTFS includes appendices covering key financial risks and the reserves strategy, the main objective for both of which is to provide assurance that the Council has a good understanding of the primary causes of volatility and is in a good position to mitigate them.

43. The draft efficiency plan can be found at **Appendix 6**. It is recommended that Members delegate authority to the Executive Director of Resources to submit the final version of the plan to DCLG, in consultation with the Cabinet Member for Finance and Resources.

## Assessment of the Budget Gap

44. As shown in Figure 2, the scale of the budget gap is affected by changes in the Council's resources (Revenue Support Grant, Business Rates, Council Tax and other specific grants) and expenditure, as well as one-off and exceptional items. This section deals with each of these key components in turn.

### Revenue Support Grant

45. For 2016/17, the Council will receive £90.6m of RSG from Government. The Local Government Finance Settlement announced in December 2015 detailed the levels of planned RSG reductions until 2019/20. The level of funding will fall from the £90.6m awarded in 2016/17 to £36.9m in 2019/20. At this point, it is assumed that any remaining RSG will be exchanged for a greater level of retention of business rates income as part of the aforementioned government plan on localisation of business rates.

### Business Rates

46. With the introduction of the national business rate retention scheme in April 2013, a significant proportion of the Council's income now comes from the Council's 49% share of business rates collected locally. This Council's share of business rates is currently set to increase to 100% from 2020 with RSG set to decline even further.

The financial position of the Council will now be substantially dependent on its ability to raise and collect the expected level of business rates.

47. The amount of business rates an individual authority is capable of collecting differs significantly across the country, depending on its location and characteristics. For example, relatively prosperous areas will expect to collect more business rates because their billing areas include a large proportion of business premises with high rents and therefore high rateable values. In contrast to this, authorities in regions of relatively high deprivation will expect to collect less in business rates because their billing areas are likely to comprise a large proportion of small business premises with low rents and therefore low rateable values which are subject to small business rate relief.

48. In order to counteract this national imbalance, the Government has introduced a system of top-ups and tariffs to re-distribute business rates across the country. Authorities with a relatively high level of business rates pay a tariff into a national pot, which is then used to pay top-ups to those authorities with relatively low levels of business rates. With effect from April 2013, the Government has set the level of tariffs and top-ups for a period of at least seven years, although top-ups and tariffs will increase by the rate of inflation over that period.

49. As the Council is deemed to have a level of need in excess of the business rates it is capable of collecting, it receives a top-up grant which amounts to £29.1m in 2016/17 and which is assumed to increase by 1% per annum over the next five years.

50. A series of complex assumptions need to be made in arriving at an estimate of how much business rate income the Council will collect, and therefore how much it will rely upon in setting the budget for 2017/18 and beyond. For instance, the Council's assumptions about growth (if any) in the amount to be collected, the losses on collection, the levels of reliefs that may be given and the levels of outstanding appeals. All of these carry significant risk and will involve assumptions about performance in 2017/18 and future years that will be based on experience of recent years and the use of the most up to date information available.

51. In arriving at a reasonable estimate of retained business rate income in 2017/18 and beyond, the following key assumptions have been made:

- Multiplier Inflation: This is based on the forecasts made by the Office for Budget Responsibility in March 2016 (e.g. 2.4% for 2017/18) minus 1% to account for market volatility. RPI was used as the basis for inflation for the period up to 2019/20. From 2019/20 the inflation figure drops down to CPI in line with policy announced by the Chancellor in the 2015 Autumn Statement.

- A business rates growth model has been developed to analyse potential growth. This model pulls information from a variety of sources in order to quantify growth in the business rates base. Any forecasts of potential growth need to be treated with caution as there may be reductions in business rate income elsewhere as businesses relocate or have their rate liability re-assessed by the Valuation Office Agency (VOA). For the purposes of this forecast, the business rates growth model was used to forecast potential growth figures up to 2018/19. The figures for 2018/19 have been used for the subsequent years as we do not have enough substantial data past this point.

- The VOA is in the process of re-assessing all premises subject to business rates in preparation for full-scale national revaluation with effect from April 2017. At the time of writing this report, no information was available to evaluate the potential impact of revaluation on the Council, so it is assumed in this MTFS that there will be a neutral impact.

- Reliefs: there are a number of reliefs against business rates liability, including small business rates relief, charitable relief, and deductions for empty properties and partly occupied premises. It is estimated that the total value of these reliefs and deductions will remain constant at 2016/17 levels (circa £37.0m).

- Losses and costs of collection of business rates: this includes an estimate of the bad and doubtful debts in 2016/17, the potential legal and other recovery costs. It is assumed that losses on collection will stay at 2016/17 levels, i.e. £3m.

- Refunds of business rates due to successful appeals: business ratepayers can seek an alteration to the rateable value of a property by appealing to the VOA. However, because of the large volume of appeals, decisions by the VOA can take several years. Although the then Chancellor announced in the Autumn Statement in December 2013 that he had set a target for the VOA to work through 95% of outstanding appeals (as at 30th September 2013) by July 2015, this target was not achieved. A prudent provision has been taken for the appeals and as such this should not impact on the MTFS.

- It is difficult to arrive at a reliable estimate of the potential refunds due on outstanding appeals in addition to any new ones that may be lodged. Based on the most recent data provided by the VOA, it is assumed that the cost of refunds due to appeals will remain at 2016/17 levels (£3.4m).

52. Significant risks in respect of business rates are described further in **Appendix 3**.

**Council Tax**

53. The Council set a Council Tax Requirement for 2016/17 of £176.5m. The Band D equivalent council tax was £1,360.48, a 1.99% increase on the previous year. The overall level of Council Tax income is dependent on the following:

    - The Council Tax base: i.e. the overall number of properties that the Council can collect council tax from;

    - Any restrictions on the ability of the Council to increase the level of council tax: i.e. the policy of the Government to prescribe an increase that will trigger a local referendum.

54. The phrase “Band D equivalent properties” is used throughout this report because Band D is used by the Government as the standard for comparing council tax levels

between and across local authorities. This measure is not affected by the varying distribution of properties in bands that can be found across authorities. A definition of Council Tax can be found in **Appendix 5**.

Council Tax base

55. The Council Tax base for 2016/17 was set at 132,253.72 Band D equivalent properties. This was an increase of 2,022 properties (1.6%) compared to the figure for 2015/16, partly due to an additional 1,510 properties, but also as a result of 1,174 fewer properties being entitled to the Council Tax Support Scheme (CTSS) offset by 661 properties that are entitled to discounts and exemptions.

56. The statutory date for the determination of the tax base for 2017/18 is not until early next year. However, for the purposes of the MTFS, a review of the current position has been made based on information presently available:

- The overall number of properties: at the present time, the prudent assumption being made is that there will be at least an additional 500 band D equivalent properties for each of the next five years. Some increase was to be expected with additional properties being constructed or brought into use. It is not known to what extent this figure will grow in the coming months.

- Number of properties eligible to discounts and exemptions (not including CTSS). The tax base for 2016/17 assumed that 35,868 properties would be eligible for discounts and exemptions. At the present time, it is assumed that the number of properties claiming discounts/reliefs in future years will remain the same. However, this figure is subject to fluctuations throughout the year, particularly as a result of student homes exemptions.

- Number of properties eligible for CTSS. The current CTSS in Sheffield which was introduced in 2013 requires council tax payers of working age to pay a minimum of 23% of their council tax bills. For financial planning purposes, it has been assumed that the scheme will not be altered in the medium term. However this will be an issue for Members to consider alongside the savings proposals for 2017/18.

- Estimated collection rate: for budgeting purposes, the practice has been to set a prudent in-year collection rate as part of the tax base calculations, although eventually the Council recovers up to 99% of council tax. The introduction of CTSS has also had an impact on the collection rate. The forecast level of council tax income for 2017/18 assumes an in-year collection rate of 95.5% (unchanged from 2016/17).

Council Tax referendum limits

57. Government policy regarding the trigger point for a local referendum is announced by the Secretary of State for Communities and Local Government in February each year. In February 2016, the Secretary of State set a principle that an increase in council tax of 2% or above would trigger a local referendum. In addition, headroom of 2% applied to Councils with social care responsibilities. Councils were required to certify that the funds raised by the additional 2% headroom were spent on social

care. The trigger point for 2017/18 will not be known with certainty until the principles are issued in February 2017.

58. It will be for the Council to decide the policy regarding future Council Tax increases. For the purposes of this report, a modest increase in Council Tax income is included in the forecast from April 2017 through growth in the current tax base.

**Collection Fund Surplus**

59. The Council is required to estimate, for Council Tax setting purposes, the projected year-end balance on the Collection Fund. This estimate must take account of payments received to date, the likely level of arrears and provision for bad debts etc., based on information available by 15 January. It has been assumed that there will not be a surplus or deficit for the period of this strategy.

**Specific Grant funding beyond 2016/17**

60. The table below shows the main grants that the Council has taken into account when setting the 2016/17 revenue budget.

Figure 5 – Specific Grants

| | **Budget 2016/17 £000** |
|---|---|
| Public Health | 35,100 |
| Business Rates Top Up Grant | 29,124 |
| NHS Funding | 12,399 |
| New Homes Bonus | 9,323 |
| Education Services Grant | 4,417 |
| Housing Benefit Admin Grant | 2,551 |
| S31 Grants for Business Rate Reliefs | 2,880 |
| Independent Living Fund | 2,780 |
| S31 Grant for Business Rate Cap 2014/15 & 2015/16 | 1,490 |
| Council Tax Support Admin Subsidy Grant | 873 |
| **Total** | **100,937** |

61. As very little information has been provided on future allocations of specific grants by the Government, assumptions have been made about each of the grants listed in Figure 5 on a case by case basis. The following paragraphs focus on those grants where there is a relatively high degree of risk in terms of future cuts, or where certain assumptions have been made in the forecast.

Public Health

62. Following the transfer of responsibilities for health visitor services for children aged 5 years and under from the NHS in October 2015, the total amount of funding from the Department of Health has now increased to £35.1m for 2016/17. It is worth noting that Sheffield suffered a £2.2m in-year grant cut during 2015/16.

63. Consultation on the Public Health Grant formula was undertaken during the autumn of 2015; the findings are still to be published. Based upon information provided within the consultation document, we are of the view that the most likely outcome will result in a 2.5% to 2.6% reduction per year in the grant received between 2017/18 and 2019/20.

64. There is also a risk that if a revised formula for Public Health is implemented before the ring-fence is removed at the end of 2017/18, the national redistribution effect could result in circa £2m being cut from Sheffield's current allocation.

65. In the 100% Business Rates Retention consultation document launched by DCLG on 5 July 2016, the Public Health grant is among the grants it is proposed will cease altogether at the point of full localisation of business rates, although local authorities would still retain responsibility for public health functions. We envisage that cessation of the Public Health grant is likely for two reasons. Firstly, the ring-fence is due to be removed after 2017/18 (a common precursor to significant cuts to grant). Secondly as the second largest grant to local authorities by value after RSG, without its cessation the Government would struggle to find alternative grants to swallow the 'headroom' (i.e. the difference between the additional business rates transferred to local authorities by 2020 and the remaining RSG at that point).

Dedicated Schools Grant (DSG)

66. During March 2016 the Government launched a Schools Funding Formula consultation which seeks to fundamentally change the way DSG will be allocated and distributed to schools.

67. Currently there are three blocks of funding, the Schools Block, the High Needs Block and the Early Years Block. The Local Authority has some flexibility in how it uses these funds to support schools and other services. However, the proposal is to restrict the current flexibility by ensuring that all of the Schools Block is passported directly to schools.

68. In addition to this change, there is a proposal is to create a fourth block – 'Central Schools Block'. This would contain funding for central schools services, historic local authority spending commitments and the retained rate of the ESG. Unlike the other blocks of funding that are to be transferred to schools and are likely to be protected, the Central block will be subjected to reductions in funding over the coming years. This reduction in funding will inevitably create budget pressures for a number of council departments.

Education Services Grant

69. Of the £4.4m reported above, £1.1m is for retained duties and £3.3m is General funding rate. As aforementioned, the Schools Funding Formula consultation was launched in March 2016 and the retained duties income of £1.1m will be rolled into DSG and subject to cuts from 2017/18. The General funding element of ESG of £3.3m will completely cease from September 2017. The Council will receive a reduced amount of the General funding element for the first 5 months of 2017, but this is to cover transitional arrangements. The DFE recognise that whilst some of this reduction can be made from efficiency savings, the rest cannot. They are seeking views on the statutory duties that could be removed or reformed.

70. The Council may be able to retain some of their maintained schools' DSG to cover statutory duties, but it is not clear at this stage how this will work. For these reasons, the Children's, Young People and Families portfolio have accounted for this reduction and/or cessation of the grant within the budget pressures figures for 2017/18 and beyond.

Better Care Fund (BCF)

71. The Council currently receives £12.4m of funding via the NHS centrally to meet the costs of providing adult social care. In addition, from April 2015 the Council has pooled its adult social care budget with that of the local NHS Clinical Commissioning Group (CCG).

72. The actual amount which the Council will receive from the CCG for the BCF is subject to ongoing discussions with the CCG. The Council's 2016/17 budget includes a £9.3m corporate savings target that assumes either the CCG will provide additional income or recurrent savings on adult health and social care expenditure will be found.

Independent Living Fund (ILF)

73. The ILF scheme was administered by Department for Work & Pensions (DWP) until 30 June 2015, after which point the responsibility for service users transferred to local authorities. The scheme delivers financial support to disabled people so they can choose to live in their communities rather than in residential care.

74. After initial concerns of large scale funding reductions, the DCLG provided indicative grant funding figures for 2016/17 to 2019/20. The grant award will fall from £2.8m to £2.5m for this period.

**Forecast revenue expenditure**

75. The Council set a net revenue budget for 2016/17 of around £406.5m. There will be a number of items of additional expenditure that are likely to be incurred in future financial years and there will be other issues, about which there is currently uncertainty but which may also subsequently involve expenditure for the Council. A key issue for the budget process will be the approach to including additional budget

provision during a period in which resources are constrained. Compared to the amounts budgeted for in 2016/17, there are a number of potentially significant additions and reductions to annual expenditure in future years:

- Local Government Pensions costs: as a result of the triennial valuation of the South Yorkshire Local Government Pension Scheme (LGPS) completed by 31 March 2014, the Council's financial obligations with regard to the LGPS have increased significantly over the period 2014-17 compared to the previous triennial period. The Council set aside a further £2.2m to meet these obligations in 2016/17 compared to the previous year. The final results of the next triennial valuation will not be known until December 2016; given the potential impact of Brexit on any revaluation, £5m per year of additional costs has been assumed in the MTFS. This likely increase in costs will be managed in some part by way of an early payment of the deficit recovery contribution during 2016/17, which should in turn reduce the contributions required over the next three years.

- Pay strategy: the Council agreed a new 4 year pay strategy with effect from April 2014. As part of this strategy the increment freeze was extended to March 2015, although there was a payment of £250 for the lowest paid employees. The other elements of the strategy – involving the introduction of mandatory unpaid leave, the introduction of half increments and a Christmas shutdown – took effect from April 2015.

  The introduction of the new pay strategy will amount to a pressure of c. £2.0m in 2017/18, rising to £9.1m cumulatively (largely due to the cost of increments) by 2021/22, based on the current staffing structures. This assessment will change as more is known about revised staffing structures and any subsequent pay deals from 2018/19 onwards. These pressures are included under expenditure variations.

- Capital Financing costs: an assessment has been made of the likely level of capital financing costs in future years across the whole of the Council. We anticipate that the capital financing budget can be reduced by £2.0m in 2018/19, with the potential for further reduction of £1.0m in 2020/21. This is for two main reasons. Firstly, future borrowing is likely to be taken at lower rates of interest than we have achieved historically. Secondly, some of the capital programme has been temporarily funded from borrowing from internal resources, lowering the overall level of interest incurred during this period.

- Streets Ahead contract: the Council investment in the Streets Ahead contract will result in the required amount increasing by approximately £1.8m per annum from April 2017, as planned. The costs rise as the contractor invests in bringing the highways infrastructure up to the agreed standard. This includes the full debt charges associated with borrowing £135m to finance the acquisition of assets (a saving on the previous borrowing via PFI).

- Sheffield City Trust (SCT) debt charges: in 2013 Cabinet approved proposals to restructure the funding for SCT. Part of this restructuring allowed for the release of one-off funding supporting the revenue budget over 4 years. The additional costs shown against the 'MSF ongoing increase' line in **Appendix 1**, in addition to the planned £0.45m per annum, are a result of this one-off support unwinding.

- Howden House PFI: there will be additional costs associated with the annual inflation uplift in the unitary charge. Based on current inflation forecasts, the additional annual cost is expected to be approximately £100k from 2017/18.

- Capita contract: in-depth negotiations have taken place between Council officers and Capita to identify the potential for further savings on the Capita contract. It was announced in Autumn 2014 that the negotiations were successfully concluded, resulting in savings of £1.8m in 2015/16 and £1.6m in 2016/17. Further savings of £0.2m are expected to be realised during 2017/18.

- MSF Bond Capitalisation: during 2013, as planned, a bond deposit of £140m was released to pay the final lease premium for the MSF. The principle and interest repayments due on this bond were initially charged to revenue. Following discussions with our external auditors, the principal element of the bond repayment is now capitalised, which has allowed the released revenue funding to support the budget from 2017/18 onwards.

- Impact of 2016/17 budget monitoring: the budget monitoring position for 2016/17 is presently showing a forecast overspend of £17.6m. Although it is expected that management action will be reflected in forecasts in future months, there are difficulties associated with delivering the full extent of the contract savings. For the purposes of the MTFS forecast, it has been assumed that there will not be any issues hanging over from 2016/17 or, if there are, these will be dealt with as part of the approach to managing pressures.

- In terms of portfolio cost / demand pressures, these amounted to approximately £26m in 2016/17 and were offset by savings of an equivalent figure. The majority of the pressures in 2016/17 related to difficulties in delivering prior year savings with the Streets Ahead and waste management contracts but also adult social care costs. The adult social care costs are likely to feature prominently in the review of potential pressures in 2017/18.

  The level of pressures for 2016/17 included a provision for staff pay awards of 1%, amounting to approximately £2m. Following meetings with local government representatives in early 2016, trade unions agreed to accept the proposal for a 1% increase for most staff in 2016/17 and 2017/18. This agreement for 2017/18 is reflected in the portfolio pressures.

## Approach to balancing the budget

76. 2017/18 is the seventh year of the Government's austerity programme, and we have had to plan for another cash reduction in our Revenue Support Grant, this year by £22.8m. Given the scale of the year-on-year reductions we have faced, it is becoming increasingly difficult to balance our budget whilst protecting our front-line

services, particularly by trying to make a series of across-the-Council percentage cuts to each service.

77. Consequently for 2017/18 we have changed approach from a blanket requirement for portfolios to find a given percentage of savings in their net budget, to concentrating on finding savings from a smaller number of discrete areas. This means that we are identifying a four-year programme of transformative strategic changes in individual services, intended to release sufficient savings to enable our budget to be balanced. This programme is supported by a Council-wide continuing search for lower level "tactical" reductions in expenditure, where we identify that there is scope for further efficiencies in individual services.

## Reserves

78. The Medium Term Financial Strategy is prepared against a backdrop of uncertainty and potential risk. There is nothing new in this, and whilst some of the risks have been managed by the Council for many years, it is important that the Council has adequate financial reserves to meet any unforeseen expenditure. For an organisation of the size of Sheffield City Council, relatively small movements in cost drivers can add significantly to overall expenditure.

79. The Executive Director of Resources has reviewed the position relating to Reserves and has produced a Reserves Strategy as part of the 2015/16 revenue budget which is attached at **Appendix 4.** This sets out the estimated requirement for Reserves and explains the purpose of earmarked reserves.

## Capital Programme for 2016/17

80. 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. The Council's Corporate Capital Strategy is shaped by a number of Government policies.

- The devolvement of capital funding to City Region authorities and the involvement of the Local Enterprise Partnerships (LEP) in capital allocation decisions

- The shift towards capital funding for economic regeneration projects which generate a financial return from capital receipts or government incentive schemes like New Homes Bonus, to repay the initial investment and create a revolving fund;

- Moreover, these schemes can also generate income for the local authority through the initial Community Infrastructure Levy on the development and subsequent business rates or Council Tax from additional commercial or residential premises respectively;

- The Government austerity programme, which has had a major impact on the rest of the non-housing programme. This has not only led to less capital funding, but is also reducing revenue budget funding reducing the scope for contributions to the capital budget;

- The education policy mandating that all new schools should be academies. This policy transfers maintenance responsibilities away from the Council's Local Education Authority (LEA) role and will subsequently reduce central grant funding which is formula driven based on pupil numbers;

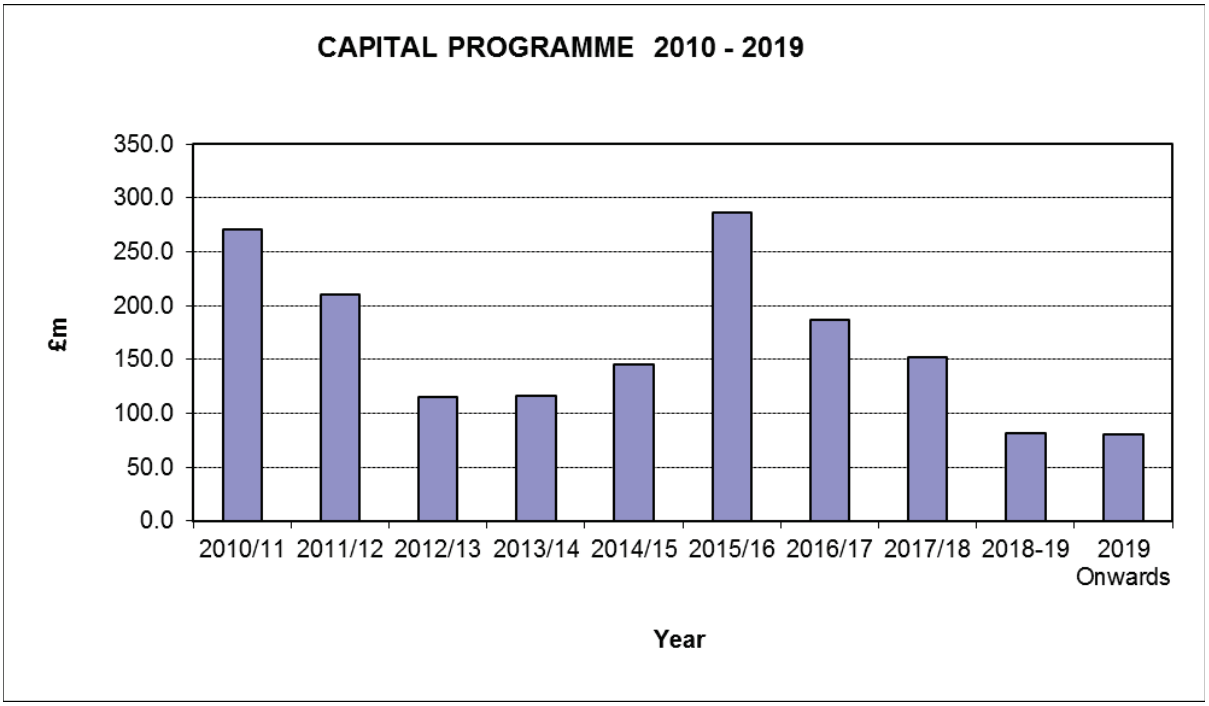
- The self-financing regime for the Housing Revenue Account (HRA) has provided for a relatively well funded programme of investment in existing and new Council housing stock;

- The Streets Ahead programme is providing massive investment in the City's roads and street lighting over the next few years, funded via the Private Finance Initiative (PFI), which is outside the capital programme.

81. As a result of the above, the Housing investment programme therefore now accounts for almost sixty per cent of the Capital Programme. The next biggest applications include economic regeneration and infrastructure renewal of highways, schools and leisure facilities.

82. The Council's Affordable Housing policy will increasingly be delivered through council housing investment and, for private sector, affordable housing, local housing associations or the Sheffield Housing Company initiative. This initiative involves the Council working in partnership with a private sector developer to increase the number of affordable homes and regenerate housing estates.

83. In the Strong Economy priority, the focus will be on creating the necessary infrastructure to support economic regeneration. Declining central government support will place increased reliance on the Council's Asset Enhancement programme to generate capital receipts to use on the Council's own priorities. The graph below illustrates the change in activity levels in the Capital Programme over the last decade.




84. The forecasts reduce beyond 2016/17 as only approved projects are included. The Council is preparing other bids to secure funds for programmes such as Flood Defence (£35m) or from the Sheffield City Region Investment Fund (SCRIF) to provide infrastructure which will support the development of the local economy. The potential redevelopment of Sheffield city centre could significantly expand the capital programme.

**Corporate Resource Pool (CRP)**

85. The CRP funds elements of the capital programme not funded by other dedicated funding streams. The Council already has established provision for housing, transport and education schemes – be that internal funds for housing (Housing Revenue Account and housing land) or government funds for education and transport. A large number of Council priorities have no clear source of funding, and have to be funded by the CRP, which is largely financed by capital receipts from land sales.

86. Capital receipts plug gaps in funding, and provide match funding to lever in external funding. Recent examples include;

- the significant enhancement of the City's recreational leisure facilities, which should also deliver revenue budget savings. The Council has put £2.5m into the £7.1m North Active facility to gain £2.3m from the Department of Health's National Centre for Sport Exercise and Medicine (NCSEM) initiative. A further £750k has been used by Sheffield International Venues at Concord Leisure Centre;

- £3m has been invested in improving football pitches.

87. Without capital receipts, these projects would not have happened. Other projects requiring CRP support include the demolition of vacant property which again helps the Revenue budget. The demolition of Castle Market buildings is an example where the Council has invested £4m in anticipation of winning further external funds to develop the site.

88. A large proportion of the Council's capital is already allocated to social housing, but in addition many housing sites are disposed at under value or at nil value to deliver social housing (e.g. for housing association schemes where the council is obliged often to give its land at little or no value to make the scheme affordable).

89. To ensure the CRP reaches the projects it is intended to support, allocations are based on the principles set out in the 2016/17 Capital Programme approved by Full Council in March 2016.

90. For the last four years, officers have recommended that no commitments beyond one year are made from the CRP. This reflects the uncertain and lower level of receipts due to the general economic downturn. The impact of the Affordable Housing policy has created further pressure whilst diverting more funds towards Housing investment.

91. The timing of future capital receipts has been very difficult to forecast. All land transactions are inherently fraught with difficulty because of the contractual process and timetables often slip. The relatively low level of receipts in recent years means that the pool has reduced. Approved and potential commitments, plus the need to maintain reserves for emergencies like major infrastructure failures or the floods of 2007, mean that these cumulative demands exceed the current reserves, and a future stream of receipts is essential.

92. The situation is under constant review, but the report on the 2017/18 Capital Programme is likely to recommend again that no further commitments are made beyond 2017/18.

**Pressures on the Capital Programme**

93. The capital programme faces several challenges:

- Decreasing central government funding, e.g. for local transport;

- Increasing demand pressures, e.g. for additional school places plus local building standards, which is likely to mean that additional support beyond that provided by central government is required in order to create the places for children when and where they are needed. This pressure is becoming particularly acute. A Cabinet report in February 2016 estimated the pressure in 2018/19 could be up to £17.5m;

- Increasing costs as the construction sector recovers from the recession and tender prices rise.  Those increases mean the Council gets less for its money or needs to spend more to deliver the same scope;

- Providing a contingency for overspends to cover unforeseen risks;

- Providing a contingency for assumed future funding streams such as Community Infrastructure Levy (CIL) not materialising;

- Providing capital to enable revenue saving projects to go ahead and  deliver savings to meet the Council's revenue budget gap;

- The increasing age of the Council's building estate requiring life-extension maintenance.  This may incur significant costs to make infrastructure compliant with current standards (e.g. electrical systems, fire risk assessment) or make buildings accessible.  These have to be funded from the Council's own internal resources like capital receipts; and

- Member priorities.

**Alternative Funding Opportunities**

94. Faced with the pressures identified above, the Council needs to look at alternative funding streams.  The General Fund is not likely to be an option given the continuing austerity measures and the budget pressures described earlier in the report.  At best there may be some limited headroom *if* there is a genuine increase in National Non Domestic Rates (NNDR) from additional development activity – but there are many competing demands on these resources.

95. There are a number of other funding sources and these are described in **Appendix 8**.

**Capital Strategy**

96. The Council funds its capital programme from a variety of external and internal sources.  Traditionally these sources of funding have been managed within services for a relatively narrow range of purposes. Paragraph 80 identifies the changing capital funding landscape where projects deliver economic and policy benefits across a range of activities.

97. In response to the changing landscape, the Council has established a "Growth Investment Fund" comprising flexible capital funds like New Homes Bonus and CIL.  This can be deployed to create one-off and future revenue budget inflows (some of which might be reinvested in the fund).  The aim is to create a revolving fund which replenishes itself from the cash inflows generated by the projects.

98. The Strategic Capital Board will oversee the allocation of the Fund which will be directed towards the Council's priorities of Growth, Homes and Schools.

**Conclusions on Capital Strategy**

99. The Capital programme funding strategy needs to be flexible enough to respond to the above opportunities.

100. The traditional approach to funding capital is not sustainable. A *passive* approach relying on central government grants is likely to result in a much diminished programme and undelivered priorities. The Council will only be able to expand the programme to meet its priorities by winning alternative external funding. Many of these funding streams are the subject of competitive bidding. Three consequences follow:

- The Council will have to ensure that it is organised such that it has the necessary skills to construct successful bids for funds;
- The Council will need to have its own resources to pledge as match funding; and
- The Council's Priority Boards must proactively select and supervise projects to ensure that approved projects deliver maximum benefits and offer real value for money.

101. The current programme is heavily skewed towards Housing schemes because of three things that ensure that a significant proportion of the council's capital programme already goes to social or affordable housing:

- The capital programme itself is nearly 60% housing;
- A large number of housing land sales are under value;
- Affordable housing obligations reduce the capital receipt from Council owned land.

102. The current discussions and recommendations are seeking to ensure that a reasonable proportion of potential receipts go to fund the other unfunded commitments in the capital programme to meet a broad range of Corporate Plan objectives. The budget process will test if Council priorities are accurately reflected in the current distribution of capital funds.

## Housing Revenue Account

103. The Housing Revenue Account (HRA) is the statutory financial account of the Local Authority as landlord. The Council owns approximately 40,200 homes that are home to around 47,281 people as tenants. In addition, 2,369 leaseholders also receive housing services from the Council. It is the Council's current and future tenants and leaseholders who are impacted by the decisions made in the HRA Business Plan.

104. For budgetary purposes, the HRA is kept separate to the General Fund revenue budget, hence any proposed changes to the HRA business plan are not expected to have any impact on the MTFS. The next update to the HRA Business Plan will be presented alongside the HRA revenue budget for 2017/18 to Cabinet in January 2017.

## Implications of this Report

### Financial & Commercial Implications

105. This is a revenue & capital financial report, and as such all financial and commercial implications are detailed in the main body of the report.

### Legal Implications

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

### Equal Opportunities Implications

107. There are no specific equal opportunities implications arising from the recommendations in this report.

## Alternative Options Considered

108. 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.

Mike Thomas
Interim Assistant Director (Strategic Finance)
10 October 2016

# Appendix 1 – Forecast Revenue Position 2017/18 to 2021/22

| | | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m |
|---|---|---|---|---|---|---|
| **Grant variations:** | | | | | | |
| | **RSG** | | | | | |
| | Reductions in RSG | 22.8 | 15.4 | 15.5 | 0.0 | 0.0 |
| | **Re: Business rates** | | | | | |
| | Top-up grant - inflation | -0.4 | -0.6 | 0.0 | 0.0 | 0.0 |
| **Other specific grants** | | | | | | |
| | Improved BCF | -2.2 | -10.4 | -9.3 | 0.0 | 0.0 |
| **Business rate income:** | | | | | | |
| | Inflation on business rate multiplier | -1.5 | -2.3 | -2.3 | -1.1 | -1.1 |
| | Growth in Business rate base | -1.7 | -2.2 | -0.7 | -0.7 | -0.7 |
| **Council Tax income:** | | | | | | |
| | Growth in Council Tax Income | -4.1 | -4.3 | -4.2 | -4.5 | -4.5 |
| **Collection Fund surplus:** | | | | | | |
| | Fall out of 2014/15 Collection Fund surplus paid in 2015/16 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Expenditure variations:** | | | | | | |
| | Pay Strategy | 1.8 | 2.0 | 1.8 | 1.8 | 1.7 |
| | Pensions deficit | 5.0 | 0.0 | 0.0 | 5.0 | 0.0 |
| | Living Wage Increase (LWF) | 0.2 | 0.2 | 0.3 | 1.1 | 0.8 |
| | Council Tax Hardship Fund | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| | Streets Ahead contract | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| | MSF ongoing increase | 2.2 | 5.7 | 0.4 | 0.5 | 0.5 |
| | Howden House PFI | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 |
| | Capital Financing costs | 0.0 | -2.0 | 0.0 | -1.0 | 0.0 |
| | Capita contract costs | -0.2 | 1.1 | 0.6 | -0.6 | 0.0 |
| **Account Adjustments** | | | | | | |
| | MSF Bond Capitalisation | -10.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Use of Invest to Save:** | | | | | | |
| | Ongoing budget support | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL | **Year on year movement** | 13.5 | 4.6 | 4.1 | 2.7 | -1.2 |
| | add bf position | 0.0 | 13.5 | 18.1 | 22.2 | 24.8 |
| | **Cumulative position** | 13.5 | 18.1 | 22.2 | 24.8 | 23.6 |

## Appendix 2 – Key Assumptions

| Assumption / Scenario | Base Case | Best Case | Worst Case |
|---|---|---|---|
| RSG | Indicative reductions as per 2016/17 Local Govt Finance Settlement, i.e.:<br>• £22.8m (2017/18)<br>• £15.4m (2018/19)<br>• £15.5m (2019/20) | Indicative reductions as per 2016/17 Local Govt Finance Settlement, i.e.:<br>• £22.8m (2017/18)<br>• £15.4m (2018/19)<br>• £15.5m (2019/20) | Indicative reductions as per 2016/17 Local Govt Finance Settlement, i.e.:<br>• £22.8m (2017/18)<br>• £15.4m (2018/19)<br>• £15.5m (2019/20)<br><br>Full withdrawal of RSG £36.9m (2020/21) |
| Business rates | • Annual increases of £0.6m, 2.0m, £1.2m, £1.2m & £1.2m in the 5 years from 2017/18 to 2021/22 respectively in locally retained business rate income<br>• Multiplier increases by OBR forecast minus 1% per annum, i.e. 1.4%, 2.2% and 2.2% for 2017/18, 2018/19 and 2019/20 respectively<br>• Neutral impact from 2017 revaluation<br>• Neutral impact from small business rate relief and other changes announced in Chancellor's March 2016 Budget<br>• Reliefs, costs of collection and appeals will remain at 2016/17 levels | • Annual increase of £2m in locally retained business rate income<br>• Multiplier increases by OBR forecast per annum<br>• Neutral impact from 2017 revaluation<br>• Neutral impact from small business rate relief and other changes announced in Chancellor's March 2016 Budget<br>• Reliefs, costs of collection and appeals will remain at 2016/17 levels | • Annual decline of £1.4m in locally retained business rate income<br>• Multiplier increases by OBR forecast minus 2% per annum<br>• Neutral impact from 2017 revaluation<br>• Neutral impact from small business rate relief and other changes announced in Chancellor's March 2016 Budget<br>• Reliefs, costs of collection and appeals will remain at 2016/17 levels |
| Council tax | • >500 additional band D equivalent properties per annum<br>• Local Council Tax Support Scheme stays the same<br>• Referendum trigger remains at 2%, and Full Council approves 1.99% increase for each of the next 5 years<br>• In-year collection rate remains at 95.5%<br>• No change to reliefs & discounts<br>• Hardship Fund increases by £0.2m per annum | • >500 additional band D equivalent properties per annum<br>• Local Council Tax Support Scheme stays the same<br>• Referendum trigger remains at 2%, and Full Council approves 1.99% increase for each of the next 5 years<br>• New power to increase council | • 100 additional band D equivalent properties per annum<br>• Local Council Tax Support Scheme stays the same<br>• Band D remains at 2016/17 level for the next 5 years<br>• In-year collection rate remains at 95.5%<br>• No change to reliefs & discounts<br>• Hardship Fund |

| | | | |
|---|---|---|---|
| | | tax up to an additional 2% through a social care precept is exercise for each of the next 5 years, subject to Full Council approval<br>• In-year collection rate remains at 95.5%<br>• No change to reliefs & discounts<br>• Hardship Fund increases by £0.2m per annum | increases by £0.2m per annum |
| Collection Fund surplus/ deficit | • Collection Fund balances in each of the next 5 years | • Collection Fund has a surplus of £2.5m in 2017/18 and balances in each of the next 4 years | • Collection Fund has a deficit of £2.5m in 2017/18 and balances in each of the next 4 years |
| Specific grants | • Improved BCF grant as per 2016/17 Local Govt Finance Settlement indicative allocation, | • BCF Grant assumed same as base case. | • BCF funding is either not used for corporate gap or carries additional responsibilities. |
| Pay inflation (set nationally) | 1% per annum from 2017/18, to be absorbed by portfolios | 1% per annum from 2017/18, to be absorbed by portfolios | 1% per annum from 2017/18, to be absorbed by portfolios |
| Apprenticeship Levy (set nationally) | 0.5% per annum from 2017/18, to be absorbed by portfolios | 0.5% per annum from 2017/18, to be absorbed by portfolios | 0.5% per annum from 2017/18, to be absorbed by portfolios |
| Pay inflation in line with Living Wage Foundation (set locally) | This is expected to cost on average an additional £0.2m per annum for the 3 years to 2019/20, jumping by a further £1.1m and £0.8m in 2020/21 and 2021/22 respectively due to the rate at which LWF increases and overtakes the lower end of the SCC payscale. | This is expected to cost on average an additional £0.2m per annum for the 3 years to 2019/20, jumping by a further £1.0m and £0.7m in 2020/21 and 2021/22 respectively due to the rate at which LWF increases and overtakes the lower end of the SCC payscale. | This is expected to cost on average an additional £0.2m per annum for the 3 years to 2019/20, jumping by a further £1.1m and £0.8m in 2020/21 and 2021/22 respectively due to the rate at which LWF increases and overtakes the lower end of the SCC payscale. |
| Pay strategy (set locally) | Half increments and mandatory 3 days' unpaid leave to continue from 2017/18 at an average cost of £1.8m per annum | Half increments and mandatory 3 days' unpaid leave to continue from 2017/18 at an average cost of £1.8m per annum | Current pay deal ceases in 2017/18 and increments are reinstated, along with removal of 3 day compulsory leave |
| Employers' | After the introduction of the new | After the introduction | After the introduction of |

| | | | |
|---|---|---|---|
| national insurance | state pension from April 2016 which led to the abolition of the "contracted out" rate of employers' contribution and additional costs of approximately £3.1m from 2016/17, no further changes to NI. | of the new state pension from April 2016 which led to the abolition of the "contracted out" rate of employers' contribution and additional costs of approximately £3.1m from 2016/17, no further changes to NI. | the new state pension from April 2016 which led to the abolition of the "contracted out" rate of employers' contribution and additional costs of approximately £3.1m from 2016/17, no further changes to NI. |
| Local Government Pension Scheme (LGPS) costs | As a result of the LGPS triennial valuation in 2013/14, the Council's financial obligations with regard to the LGPS have increased significantly over the period 2014-17 compared to the previous triennial period. The Council plans to set aside a further £5.0m to meet these obligations in 2017/18 compared to the previous year. The final results of the next triennial valuation will not be known until December 2016. An additional £5m has been set aside in 2020/21 to cover the possible impact of the next triennial valuation | As a result of the LGPS triennial valuation in 2013/14, the Council's financial obligations with regard to the LGPS have increased significantly over the period 2014-17 compared to the previous triennial period. The Council plans to set aside a further £2.0m to meet these obligations in 2017/18 compared to the previous year. The results of the next triennial valuation will not be known until December 2016. | As a result of the LGPS triennial valuation in 2013/14, the Council's financial obligations with regard to the LGPS have increased significantly over the period 2014-17 compared to the previous triennial period. The Council plans to set aside a further £6.0m to meet these obligations in 2017/18 compared to the previous year. The results of the next triennial valuation will not be known until December 2016. An additional £5m has been set aside in 2020/21 to cover the possible impact of the next triennial valuation |
| Streets Ahead contract inflation | Council investment in the Streets Ahead contract will result in the required amount increasing by approximately £1.8m per annum. The costs rise as the contractor invests in bringing the highways infrastructure up to the agreed standard | Council investment in the Streets Ahead contract will result in the required amount increasing by approximately £1.8m per annum. The costs rise as the contractor invests in bringing the highways infrastructure up to the agreed standard | Council investment in the Streets Ahead contract will result in the required amount increasing by approximately £1.8m per annum. The costs rise as the contractor invests in bringing the highways infrastructure up to the agreed standard |
| 2016/17 & prior year budget savings | All savings approved by Full Council in March 2016 (and all prior years) will be achieved in full. If in-year | All savings approved by Full Council in March 2016 (and all | All savings approved by Full Council in March 2016 (and all prior |

| | | | |
|---|---|---|---|
| | monitoring of the deliverability of these savings identifies a high risk of non-achievement, portfolios will be expected to find mitigating savings. | prior years) will be achieved in full. If in-year monitoring of the deliverability of these savings identifies a high risk of non-achievement, portfolios will be expected to find mitigating savings. | years) will be achieved in full. If in-year monitoring of the deliverability of these savings identifies a high risk of non-achievement, portfolios will be expected to find mitigating savings. |
| MSF | MSF Bond Capitalisation: Following advice from our external auditors, the principal element of the deposit bond repayment for MSF is now capitalised, which has allowed the released revenue funding to support the budget from 2017/18 onwards | Same as Base Case | Same as Base Case |
| Capital financing costs | £2m reduction in costs anticipated in 2018/19 and £1m in 2020/21. | £2m reduction in costs anticipated in 2018/19 and £1m in 2020/21. | No reduction in costs factored in for the period. |
| Better Care Fund | The £9.3m contribution from reserves to temporarily bridge the gap between the Council’s current level of expenditure and the amount of resources which it can afford to contribute to the BCF pooled budget will be replaced with either additional funding from the CCG or through recurrent savings on adult health and social care expenditure. | In this instance the Best Case and Base Case assumption are the same. | No additional funding from the CCG is forthcoming and no recurrent savings on adult health and social care expenditure can be found. |
| Capita contract | Assumed £0.2m additional saving in 2017/18 after which point the level of overall saving reduces by £1.1m and £0.6m in 2018/19 and 2019/20 respectively. These anticipated savings adjustments are as per the contract negotiated during 2014/15. | Assumed £0.2m additional saving in 2017/18 after which point the level of overall saving reduces by £1.1m and £0.6m in 2018/19 and 2019/20 respectively. These anticipated savings adjustments are as per the contract negotiated during 2014/15. | Assumed £0.2m additional saving in 2017/18 after which point the level of overall saving reduces by £1.1m and £0.6m in 2018/19 and 2019/20 respectively. These anticipated savings adjustments are as per the contract negotiated during 2014/15. |

## Appendix 3 – Key Financial Risks

| | |
|---|---|
| RSG reductions | Current assumption cannot be validated until Local Government Finance Settlement is announced in December 2016. Although RSG is part of the multi-year settlement offer made by the Government, there is a risk that the offer could be affected by external factors such as global recession. |
| Business rates | Key sensitivities relate to:<br>• Growth forecasts (approximately 2% per annum) – a shift of 1% in these forecasts is equivalent to £1m<br>• 2017 revaluation – local authorities have been assured that the outcome of revaluation will be fiscally neutral<br>• 2020 reset – no indications presently available, but could have a significant impact on the Council's top-up grant<br>• Appeals – highly volatile; the Council seeks to mitigate fluctuations in appeals by regular monitoring and communications with VOA<br>• Future increases in the multiplier |
| Council tax | One of the key risks is around the referendum trigger set by Central Government, which will not be confirmed until February 2017. If the trigger was reduced from 2% to 1%, this would limit the Council's ability to generate additional income by circa £1.7m. It will be for the Council to decide the policy regarding future Council Tax increases. |
| Spending Review | National policy announcements affecting the future of local government funding, in particular the Autumn Statement due in late November 2016, could have a profound effect on all sources of Central Government funding, including RSG and specific grants such as Public Health. |
| Pay inflation | A 1% variance in pay equates to around £1.7m. Public sector pay is expected to be capped at 1%; this has been used as the basis for calculating portfolios' pay pressures |
| 2016/17 budget savings | Any risk of non-achievement of agreed savings in the 2016/17 budget is reported in monthly budget monitoring reports. Portfolios will be expected to find mitigating savings. |
| Better Care Fund | If additional funding from the CCG or recurrent savings on adult health and social care expenditure cannot be found by year-end, the Council will face an additional pressure of £9.3m on next year's budget. Discussions are underway with CCG to resolve this. |

# Appendix 4 – Reserves Strategy

## Introduction

- This appendix reports on the latest position in relation to the level of the Council's reserves. This assessment of reserves is even more important in the context of the significant and sustained cuts in central government funding in the six years from 2011/12 to 2016/17, and the further 3 years of cuts announced in the Chancellor's 2016 Summer Budget.

- As at the 31 March 2016 the balance of General Fund reserves was £164.5m. However, as part of the assessment of the adequacy of reserves, a number of reserves are set aside or "earmarked" to cover liabilities for expenditure which is already committed but not yet paid for. The following table shows the split of earmarked and non-earmarked reserves. All but £12.6m the aforementioned £164.5m is set aside as earmarked reserves for future liabilities.

- The table shows that during 2016/17 earmarked reserves levels are planned to decrease by £53.7m. This is primarily as a result of the planned temporary use to fund an early pension deficit payment to delivery savings for 2017/18 to 2019/20. This is a repetition of the process followed in 2014/15.

### Summary of Non-Earmarked & Earmarked Reserves at 31 March 2016 & Estimate of balance at 31 March 2017

| **Description** | **Balance at 31/03/16 £000** | ***Movement in 2016/17 £000*** | **Balance at 31/03/17 £000** |
|---|---|---|---|
| **Non-earmarked Reserves** | | | |
| General Fund Reserve | 12,599 | 0 | 12,599 |
| | **12,599** | ***0*** | **12,599** |
| **Earmarked Reserves** | | | |
| **Invest to Save Post 2015** | **(2,113)** | **2,477** | **364** |
| PFI Reserve | 16,979 | (32,210) | (15,232) |
| Highways PFI Reserve | 11,331 | 3,900 | 15,231 |
| **Total PFI Reserve** | **28,310** | **(28,310)** | **(1)** |
| **Major Sporting Facilities** | **40,118** | **(8,830)** | **31,288** |
| **New Homes Bonus** | **5,527** | **918** | **6,445** |
| **Insurance Fund Reserve** | **10,653** | **0** | **10,653** |
| **Public Health** | **1,032** | **0** | **1,032** |
| **Other earmarked** | **68,398** | **(19,970)** | **48,428** |
| **Total Earmarked Reserves** | **151,924** | **(53,715)** | **98,209** |
| **Total Revenue Reserves** | **164,523** | ***(53,715)*** | **110,808** |

* a negative number (in brackets) indicates that the reserve is in deficit: in this case because of up front investment that is to be repaid in future years from savings.

## General (Non-Earmarked) Revenue Reserves

- The purpose of general revenue reserves is to provide funding for any unforeseen risks and expenditure which may arise in the year, but only as the last resort, such as for emergency funding. Reserves also provide flexibility in managing fluctuations between budgets and actual expenditure or emergencies: a good example being the Sheffield floods in 2007 when we had to use reserves to fund spending on the recovery operation before reclaiming costs from insurance or the Government. Finally, cash reserves and other working capital generate interest which is used in the funding of the budget.

- Non-earmarked General Fund Reserves (the "working balance") are estimated to be £12.6m at 31 March 2017, representing only 3.0% of the 2016/17 budget (at the maximum net budget requirement of £406m). If this £12.6m were ever used, it would have to be replaced as soon as possible as the Council would always need a minimum level of emergency reserves.

- There is no overall formula that can calculate what the level of reserves should be; it is a matter of judgement based on the known risks, budgetary pressures and local factors. The 2012 Audit Commission report 'Striking a Balance' indicated that:

  *"most Chief Finance Officers in our research regarded an amount between 3 and 5 per cent of the council's net spending as a prudent level for risk-based reserves…"*

- Sheffield's level of general fund reserves at 3.0% of the 2016/17 net revenue budget is at the low end benchmark. It is also low in comparison to most other major cities. The table below shows that Sheffield had the lowest level of General Fund reserves as a percentage of their 2015/16 net revenue budgets when compared to similar councils.

| | Estimated Un-Earmarked Reserves 31st March 2015 (£m) | % of Net Revenue Budget (2015/16) |
|---|---|---|
| Birmingham | 137.8 | 15.8% |
| Nottingham | 19.5 | 7.3% |
| Liverpool | 24.7 | 5.8% |
| Bristol | 20.0 | 5.7% |
| Manchester | 27.1 | 5.1% |
| Leeds | 22.3 | 4.3% |
| Newcastle | 10.1 | 4.2% |
| Sheffield | 11.2 | 2.6% |

## Earmarked Reserves

- Earmarked reserves are set aside to meet known or predicted liabilities, but ones that are not certain enough to create an exact provision in the accounts. The liabilities are, however, likely enough to say that the earmarked reserves are not normally available to fund the budget or other measures.

- A detailed list of earmarked reserves, their purpose and proposed use are set out in the audited 2015/16 Statement of Accounts, Usable Reserves Note 26 in the following link: https://www.sheffield.gov.uk/your-city-council/finance/statement-of-accounts.html

## Appendix 5 – Glossary of Terms

| Term | Definition |
|---|---|
| **Abbreviations** | The symbol 'k' following a figure represents £thousand.<br>The symbol 'm' following a figure represents £million.<br>The symbol 'bn' following a figure represents £billion. |
| **Capital Expenditure** | Expenditure that is incurred to acquire, create or add value to a non-current asset. |
| **Capital Receipts** | The proceeds from the sale of capital assets which, subject to various limitations (e.g. Pooling Arrangements introduced in the Local Government Act 2003) can be used to finance capital expenditure, invested, or to repay outstanding debt on assets originally financed through borrowing. |
| **Community Infrastructure Levy (CIL)** | A charge to be introduced from 1st April 2015 which will raise funds from developments on a differential scale linked to the location and type of development. It is intended to cope with the costs of growth e.g. additional schools and transport infrastructure. |
| **Collection Fund** | A fund administered by the Council recording receipts from Council Tax, National Non-Domestic Rates and payments to the General Fund.<br>All billing authorities (including the Council), are required by law to estimate the year-end balanced on the Collection Fund by 15 January, taking account of various factors, including reliefs and discounts awarded to date, payments received to date, the likely level of arrears and provision for bad debts.<br>Any estimated surplus on the Fund must be distributed to the billing authority (the Council) and all major precepting authorities (Police, Fire and DCLG) in the following financial year. Conversely, any estimated deficit on the Fund must be reclaimed from the aforementioned parties. |
| **Contingency** | A condition which exists at the Balance Sheet date, where the outcome will be confirmed only on the occurrence of one or more uncertain future events not wholly within the Council's control. |
| **Corporate** | An internal source of capital funding, which is largely financed by |

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| **Resource Pool (CRP)** | capital receipts from land sales. |
| **Council Tax** | A banded property tax that is levied on domestic properties. The banding is based on assessed property values at 1 April 1991, and ranges from Band A to Band H. Around 60% of domestic properties in Sheffield fall into Band A.<br><br>Band D has historically been used as the standard for comparing council tax levels between and across local authorities, as this measure is not affected by the varying distribution of properties in bands that can be found across authorities. |
| **Council Tax Freeze Grant** | Grant funding provided by national government to support councils that freeze their Council Tax charges. The grant scheme is open to all billing and major precepting authorities, including police and fire authorities, which decide to freeze or reduce their council tax. If they do, they receive additional funding equivalent to raising their council tax by 1%. |
| **Council Tax Support** | Support given by local authorities to low income households as a discount on the amount of Council Tax they have to pay, often to nothing. Each local authority is responsible for devising its own scheme designed to protect the vulnerable. CTS replaced the nationally administered Council Tax Benefit. |
| **DCLG** | Department for Communities & Local Government |
| **Designated Areas** | These are specific parts of the city referred to as the New Development Deal and Enterprise Zone. They are significant because any growth in business rates above the "baseline" established in 2013/14 can be retained in full locally, rather than half being repaid to Government. |
| **General Fund** | The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government grants and National non-domestic rates. |
| **Minimum Revenue Provision (MRP)** | The minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989. |
| **National Non-** | These are often referred to as Business Rates, and are a levy on |

| | |
|---|---|
| **Domestic Rates (NNDR)** | business properties based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines the national rate multiplier and the Valuation Office Agency determine the rateable value of each business property. Business Rates are collected by the Local Authority and paid into their collection fund, this amount is then distributed 49% to the Local Authorities general fund, 1% to the South Yorkshire Fire and Rescue Authority and 50% to Central Government. The Central Government share is then redistributed nationally, partly back to Local Authorities through Revenue Support Grant. |
| **Precepts** | The amount levied by another body such as the South Yorkshire Police Authority that is collected by the Council on their behalf. |
| **Private Finance Initiative (PFI)** | A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset and which traditionally have been provided by the Council. The Council will pay for the provision of this service, which is linked to availability, performance and levels of usage. |
| **Provisions** | Amounts charged to revenue during the year for costs with uncertain timing, though a reliable estimate of the cost involved can be made. |
| **Reserves** | Result from events that have allowed monies to be set aside, surpluses, decisions causing anticipated expenditure to have been postponed or cancelled, or by capital accounting arrangements. |
| **Revenue Expenditure** | Expenditure incurred on the day-to-day running of the Council, for example, staffing costs, supplies and transport. |
| **Revenue Support Grant (RSG)** | This is a Government grant paid to the Council to finance the Council's general expenditure. It is based on the Government's assessment of how much a Council needs to spend in order to provide a standard level of service. |
| **Specific** | These are designed to aid particular services and may be |

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|---|---|
| **Government Grants** | revenue or capital in nature. They typically have specified conditions attached to them such that they may only be used to fund expenditure which is incurred in pursuit of defined objectives. |
| **Spending power** | DCLG measures the impact of government funding reductions against local authorities' combined income from both government funding and council tax. This combined measure of income is called revenue spending power.<br><br>NB: in a press release from the Chartered Institute of Public Finance & Accountancy (CIPFA) following the Local Government Finance Settlement, CIPFA made the following notable comment: "*CIPFA's measure of funding used in this analysis is "unfenced spending power". This is funding that councils have available to meet their priorities and fund existing staff and commitments and which is not already ring-fenced for other use. This includes Revenue Support Grant (RSG), retained business rates, council tax and a number of special grants that authorities are free to spend as they wish. In contrast DCLG's measure also includes Public Health Grant (which can only be spent on public health matters) and the Better Care Fund (which is largely NHS money or budgets that local authorities have pooled with the NHS, and can only be spent on priorities agreed with local NHS managers).*" |
| **Unsupported (Prudential) Borrowing** | Borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets. |

## Appendix 6 – Efficiency Plan

1. This document sets out Sheffield City Council's Efficiency Plan which covers the 5 years from 2017-22. This Plan has been published alongside the Council's Medium Term Financial Strategy (MTFS) for the same 5-year period, which is scheduled for approval at Cabinet on 19 October 2016.

2. Both the MTFS and the Efficiency Plan are aligned to the Council's Corporate Plan 2015-18, which was approved by Cabinet on 18 March 2015.

3. The Corporate Plan is structured around 5 priorities that capture the Council's long term ambitions for Sheffield:

    - An in-touch organisation;
    - Strong economy;
    - Thriving neighbourhoods and communities;
    - Better health and wellbeing;
    - Tackling inequalities.

4. The Efficiency Plan is structured around 6 key questions which are recognised as best practice according to a joint piece of work by CIPFA and the LGA:
    i. What are the targets, and how clear are they?
    ii. What role is partnership working expected to take?
    iii. What aspirations does the Council have in relation to transformation programmes?
    iv. How does the Council intend to achieve its efficiencies?
    v. Is there clear ownership and accountability?
    vi. How robust is the process for measuring, managing and monitoring the outcomes of the plan?

5. As well as the MTFS, we have also included key extracts from the following documents to provide useful background information to the reader of this plan, with links to the full documents where relevant:

    - 2016/17 revenue budget and capital programme – see item 9 on the March 2016 Full Council agenda accessible via https://imgmeetings.sheffield.gov.uk/ieListDocuments.aspx?CId=154&MId=6051&Ver=4

    - 2015-18 corporate plan – this was approved by Cabinet in March 2015 https://www.sheffield.gov.uk/your-city-council/policy--performance/what-we-want-to-achieve/corporate-plan.html

Targets

6. The MTFS sets out the Council's estimated corporate budget gap for the 5 years to 2021/22, as well as indicative portfolio cost and demand pressures. In summary, the corporate gap is as shown in the table below. This can also be found as Figure 2 under paragraph 22 of the MTFS.

| | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m |
|---|---|---|---|---|---|
| **Reductions in RSG** | 22.8 | 15.4 | 15.5 | 0.0 | 0.0 |
| **Business Rates & Council Tax Income** | (7.7) | (9.5) | (7.2) | (6.2) | (6.2) |
| **Corporate Grant movements** | (2.2) | (10.4) | (9.3) | 0.0 | 0.0 |
| **Expenditure variations** | 0.6 | 9.1 | 5.1 | 8.9 | 5.0 |
| **Budget Gap** | **13.5** | **4.6** | **4.1** | **2.7** | **(1.2)** |
| Balance B/F | **0.0** | 13.5 | 18.1 | 22.2 | 24.8 |
| **Cumulative position** | **13.5** | **18.1** | **22.2** | **24.8** | **23.6** |

7. This table shows that on a cumulative basis, the Council currently believes that its financial position over the medium term is broadly balanced. A more detailed breakdown of the above figures can also be found in Appendix 1 of the MTFS. A word of caution: whilst this base case view suggests that the Council has a financially resilient foundation from which to build in the longer term, there are many assumptions and risks which need to be taken into account. These are set out in further detail in Appendices 2 & 3 of the MTFS.

8. The fourth section of this report explains how the Council intends to meet the immediate budgetary challenge of the next 3 years, during which period projected increases in council tax, business rates and new central government funding for adult social care will be more than offset by RSG cuts and social care demand and cost pressures.

Role of partnership working

9. The Council is involved a whole host of partnership working arrangements. The following examples are regarded as some of the most significant in terms of the Council's strategic priorities.

10. Better Care Fund (BCF) – the Council continues to work in close partnership with the Sheffield Clinical Commissioning Group (CCG), further developing the single budget of £280m that has been established to deliver health and social care in Sheffield. The BCF includes expenditure on four areas of need, focussing on those at risk of admission to hospital and those for whom there is the greatest opportunity to maintain their wellbeing:

- People keeping well in their local community;
- Independent living solutions;
- Active support and recovery;
- Ongoing care.

11. Police & Crime Commissioner (PCC) – the Council continues to work closely with the PCC to ensure that the Council spends its budget relating to community safety in the best way, by building on the coordinated and intelligence-led approach to ensure that money is being spent where it can have the biggest possible impact.

12. Sheffield City Region (SCR) – the Council is a constituent member of the SCR Combined Authority. Even before its official inauguration in April 2014, the member authorities worked collaboratively to secure a series of City Deals. 18 months later, the Council and the other eight authorities in the city region signed the Sheffield City Region devolution deal with HM Treasury. This deal is important because it gives the Combined Authority control of a new additional £30m a year funding allocation over 30 years, to be invested to boost growth.

<u>Transformation Programmes</u>

13. The 'Approach to balancing the budget' section of the MTFS sets out the broad framework which the Council will use as part of its approach to budgeting and business planning. Any prospective transformation programmes will be evaluated against this framework.

14. The Council has a good track record of implementing change, even before the era of austerity. Some examples of the Council's change programmes include:

    - Reviewing and re-tendering the Council's information & communication technology and finance and human resources business transaction services;
    - Launching the Streets Ahead programme to improve the quality of the city's highways network;
    - Reviewing all of the Council's community assets;
    - Reducing the Council's office accommodation;
    - Reviewing the senior management and staff pay structures.

15. Going forward, the Council will continue to use its programme management capacity, capability and experience to deliver the projects required to ensure that the Council remains financially sustainable.

<u>Delivering the efficiency targets</u>

16. As mentioned in paragraph 8 of this plan, the immediate challenge is to set a balanced budget over the next 3 years, whilst continuing to monitor developments in the arena of local government finance reform especially in relation to business rate retention, the devolution of additional responsibilities and the review of fair funding.

17. The Council is therefore proposing to set efficiency targets for each portfolio of 3%, 1% and 1% for 2017/18, 2018/19 and 2019/20 respectively. Senior officers in each

portfolio are currently in the process of preparing savings options using parallel strategies: (a) top-down, i.e. focusing on a few, large-scale programmes which will deliver a high proportion of savings, and (b) bottom-up, i.e. reviewing all areas to identify potentially a higher volume of relatively low value savings. The preference is to adopt the savings identified via strategy (a). If the savings from this strategy are insufficient, they will need to be supplemented by savings options identified via strategy (b).

<u>Ownership and accountability</u>

18. The governance arrangements for the Council's business planning process involve a number of checkpoints to ensure that all savings proposals are rigorously reviewed before they are formally submitted to Members as part of the annual budget report to Full Council in March.

19. Portfolio-specific savings proposals are initially formulated and signed off by the relevant programme board and/or leadership team. Thereafter, strategic savings proposals are peer-reviewed firstly by the Business Planning Operations Group which is chaired by the Head of Strategic Finance, and secondly by the Business Improvement Board which is chaired by the Executive Director of Resources, before onward submission to the Executive Management Team. This process ensures that all proposals:

- are congruent with the Council's strategic priorities;
- are scrutinised by the relevant experts in Finance, Legal and HR, and;
- are supported by equality impact assessments.

<u>Measuring, managing and monitoring the outcomes of the plan</u>

20. There are a number of key milestones in the annual budgeting process which will serve to test the effectiveness of the Efficiency Plan.

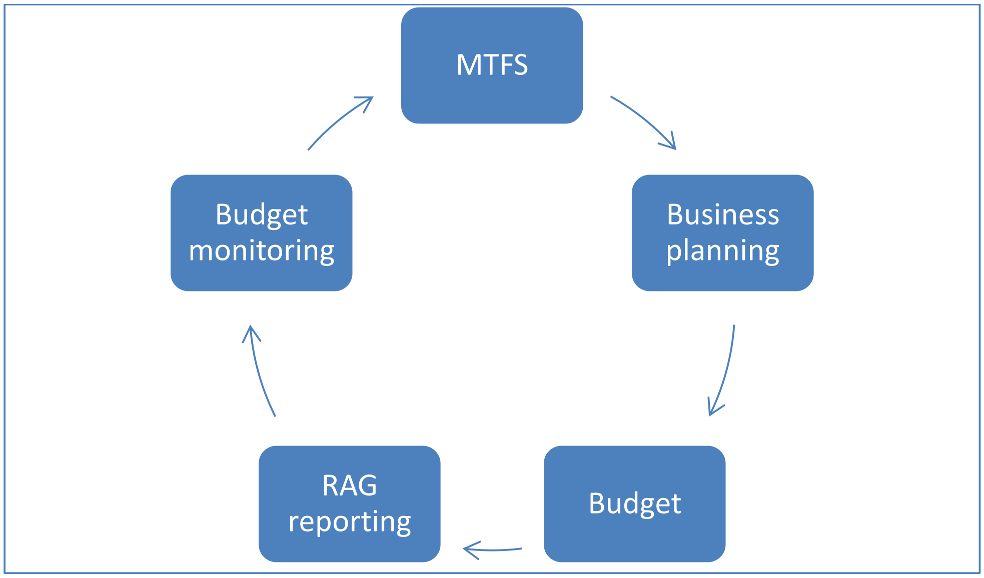
- <u>MTFS</u> – the accuracy of the forecast assumptions are constantly checked against the latest available information, and revised as necessary, for example in light of the Local Government Finance Settlement;

- <u>Business planning</u> – the corporate gap is combined with portfolios' best estimate of pressures in order to formulate a saving target for each portfolio;

- <u>2017/18 budget</u> – a detailed set of revenue budget and capital programme reports are compiled, with portfolio savings options converted into budget implementation plans for Members to review and approve at the annual Budget Council meeting in March;

- <u>RAG reporting</u> – five bi-weekly reports are submitted to the Executive Management Team from April to June, setting out a risk assessment of the deliverability of budget savings approved at Council;

- Budget monitoring – monthly reports of the forecast position in every portfolio are submitted to Executive Management Team and Cabinet.



## Appendix 7 – Bibliography

| Title | Link | Paragraph reference |
|---|---|---|
| Local government finance settlement 2017 to 2018: technical consultation | https://www.gov.uk/government/consultations/local-government-finance-settlement-2017-to-2018-technical-consultation | 9 |
| 'Social care for older people: home truths' (The King's Fund, September 2016) | King's Fund - social care for older people | 15 |
| Self-sufficient local government: 100% business rates retention | https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention | 26 |
| Fair Funding Review: Call for evidence on Needs and Redistribution | https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention | 26 |
| Local Government Association briefing, House of Commons debate, final Local Government Finance Settlement 2016/17 (10 February 2016) | LGA Briefing on 2016/17 Final Local Government Finance Settlement | 31 |
| LGA & CIPFA's "Preparing And Submitting An Efficiency Plan" (June 2016) | Preparing and Submitting an Efficiency Plan | 35 |

# Appendix 8 – Capital Programme: Alternative Funding Opportunities

Sheffield City Region Investment Fund (SCRIF)

1. This Fund is not new money but comprises central government grants devolved to City Regions to allocate in pursuance of their local priorities. Funds are likely to be allocated to large economic development projects (e.g. city or town centre redevelopments, transport infrastructure), for instance:
    - £2.1m has been secured to support the Grey-to-Green project to redevelop West Bar to Castlegate;
    - £4.9m to provide the public realm and infrastructure for the Olympic Legacy Park;
    - £4m of support to deliver the BRT North Bus Rapid Transit corridor which benefits the whole of the Lower Don Valley corridor across the City Region.

Over £20m of other bids submitted for city centre redevelopment.

Tax Incremental Financing (TIF)

2. This initiative is useful for large scale infrastructure projects which are expected to generate future revenue streams, e.g. through business rates. It is to be employed to fund the city centre development work.

Community Infrastructure Levy (CIL)

3. Introduced in Sheffield from July 2015, this charge will raise funds from developments on a differential scale linked to the location and type of development. It is intended to cope with the costs of growth, e.g. additional schools and transport infrastructure.

4. Expectations around the impact of this money need to be carefully managed. It represents a significant opportunity, but the annual income is likely to be no more than £2m, and the first receipts will be used to fund the BRT North project which will help regenerate the Lower Don Valley.

New Homes Bonus

5. A scheme which incentivises Councils to facilitate additional housing through either new construction or bringing long term empties back into use with premiums for Affordable Housing. Typically this generates between £1,400 and £1,800 per unit, which could amount to £7m - £9m in each of the next three years. £9m of existing planned commitments over this period have already been made, but there is still a substantial sum to be used. However, NHB is not additional money. It is top sliced out of the Revenue Support Grant, and most empirical studies suggest that Northern

metropolitan councils are “net losers” compared to those areas in the South East experiencing very active housing construction.

Better Care Fund (BCF)

6. Proposals for this initiative are being developed.  However, compared to the scale of BCF and the capital programme these proposals are very small scale.  However it does fund work to adapt homes to enable people to live independently which is a Member priority.

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7. There is about £3.5m of unallocated funding from previously made agreements which can be used as part of the capital strategy for funding the programme.

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