

MEDIUM TERM FINANCIAL ANALYSIS: 2018/19 TO 2022/23

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

Executive Summary

2. The Medium Term Financial Analysis (MTFA) sets out the Council's latest financial forecast for the period 2018/19 to 2022/23. Over the next 5 years, our current view is that the Council's cumulative budget gap will increase to circa £108m by 2022/23, as shown in Figure 1 below. This takes account of changes to the Council's main sources of income (i.e. central government grant and local taxation), corporate expenditure (e.g. capital financing costs) and pressures on services (arising from inflation, demand or legislative changes such as the increase to the minimum wage). However the additional Better Care Fund (BCF) monies announced in the spring 2017 budget are one-off funds, and so are not included in the table below, which considers recurrent funding changes. Instead they are noted below the table for completeness. A separate paper on the Council's approach to using these funds to assist in the transformation of social care services will be taken to Cabinet for approval in July 2017. Also the numbers in Figure 1 assume that 2017/18 pressures will be resolved in 2017/18, ie there are no unresolved pressures from 2017/18 brought forward into 2018/19.

Figure 1 – Summary of Projected Budget Gap for the 5 years to 2022/23

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Reductions in RSG	15.4	15.5	0.0	0.0	0.0
Business Rates & Council Tax Income	(14.8)	(7.1)	(6.1)	(6.2)	(6.3)
Corporate Grant movements	(10.4)	(9.3)	0.0	0.0	0.0
Corporate Expenditure variations	10.9	7.5	10.9	7.3	7.4
Social Care pressures	21.0	17.6	15.6	11.0	11.0
Other service pressures	7.1	2.9	3.0	2.1	2.1
Budget Gap	29.1	27.1	23.3	14.3	14.3
Balance B/F		29.1	56.3	79.6	93.8
Cumulative position	29.1	56.3	79.6	93.8	108.1
Spr 2017 BCF (One-off Funds)	(7.7)	(3.8)			

3. Estimated pressures on services account for around £93m (circa 86%) of the cumulative projected budget gap in 2022/23.
4. The Council's social care services are experiencing significant cost and demand pressures which, even with additional adult social care funding, completely outstrip growth in local taxation.
5. The MTFA is recommending a revised approach to business planning which will focus on savings which support the Council's strategic priorities of economic growth, prevention and making the most effective use of our resources.
6. Following the outcome of the General Election on 8th June 2017 (which could lead to revised Department Expenditure Limits and hence central government grant funding available to local government), we may need to issue a revised MTFA in the Autumn. In addition we are currently refreshing the Council's corporate priorities, and as needed we will revise this Analysis to reflect those revised priorities.

Recommendations

7. It is recommended that Members:
 - note the forecast position for the next 5 years; and
 - agree the approach to budgeting and business planning.

Background

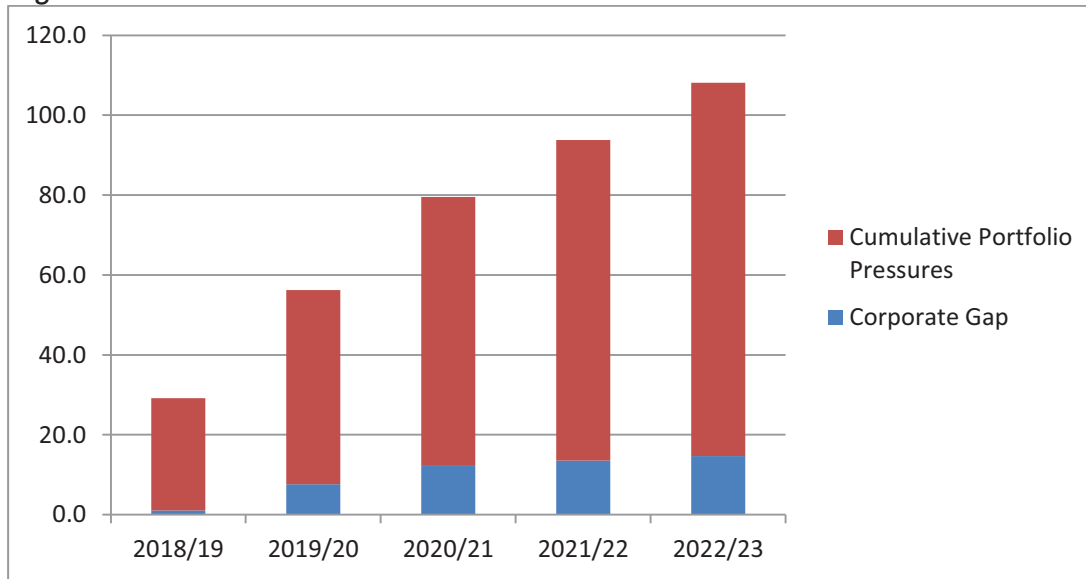
8. The last Medium Term Financial Strategy (MTFS) was considered by Cabinet on 19 October 2016. The MTFA has been updated to reflect:
 - the budget decisions of Full Council on 3 March 2017, and;
 - the announcement of additional adult social care funding in the Chancellor's Spring Budget on 8 March 2017.
9. The full details of the provisional Local Government Finance Settlement for 2018/19 are not likely to be known until December 2017. However as part of the final Local Government Finance Settlement for 2017/18, announced on 20 February 2017, Central Government issued a firm set of Revenue Support Grant (RSG) figures for the three years to 2019/20 for 97% of all local authorities which had accepted the Government's offer of a guaranteed multi-year settlement (Sheffield was one of the 97%).
10. In last year's MTFS, Cabinet endorsed the Council's approach on lobbying Government for the Improved BCF Grant to be brought forward to 2017/18. Although the allocations for this particular grant have not been changed since the publication of the 2016/17 Local Government Finance Settlement (i.e. £2.2m in 2017/18, circa £13m in 2018/19 and then £22m in 2019/20), the Government has heeded the call from the local government sector for additional adult social care funding to be front-loaded.
11. Consequently, the Chancellor announced in his Spring Budget on 8 March 2017 £2bn of additional funding for adult social care will be made available over the next three years (2017-20). For the Council, this means circa £12.5m of additional funding in 2017/18 (with reducing amounts in the following two years). However there are certain conditions with which the Council must comply, so we cannot simply plug the budget gap with this new money. The decision as to how this funding will be utilised will have a major bearing on business planning in the medium term, and will be covered in a separate report, as discussed in para 2 above.
12. A further consultation seeking views on the implementation of the Government's commitment to allow local government to retain 100% of the Business Rates that we raise locally closed on 3 May 2017. However, following the result of the General Election and subsequent omission of the Local Government Finance Bill from the Queen's Speech on the 21st June, it is clear that there are no current plans to pursue the implementation of 100% business rates retention.
13. In addition we are still working through the full impact of the severe reductions in funding that have occurred since 2010, and are grappling with increasing demand and cost pressures on many of our services, particularly in relation to social care services for vulnerable older adults and children. These factors create too many variables to predict the future with certainty.

Summary

14. 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. For further details, please see paragraph 57 onwards.
15. The first step in the business planning process for 2018/19 is to estimate the gap between the Council's resources and expenditure. In addition to cuts to Revenue Support Grant of around £125m
16. Over the last 4 years (from £192.5m in 2013/14 to £67.8m in 2017/18), we now have strong indications that the remaining RSG of £67.8m will reduce to £36.9m by 2019/20. The cut to RSG in 2018/19 will be £15.4m. However, due to additional social care funding and forecast rises in other income, we estimate that the cut to RSG in 2018/19 will be completely offset, leaving a cash standstill position.
17. Our estimate also reflects expenditure variations such as:
 - the unwinding of a debt restructuring arrangement (the aim of which was to release one-off funding to support the revenue budget over the 4 years from 2013-17);
 - the estimated cost of implementing a revised pay & reward strategy; and
 - contractual inflation on the Streets Ahead contract.
18. The budget gap also takes into account 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 £29.1m for 2018/19. Further details on the gap can be found from paragraph 25 as well as in **Appendix 1**.
19. The chart below shows how the forecast gap increases over the next 5 years from 2018/19 to 2022/23.

Figure 2 – Projected Budget Gap for the 5 years to 2022/23 (including an estimate of pressures in future years)

Figures are shown in £m



20. Whilst the forecast corporate funding gap for 2018/19 appears to be relatively small, it should be noted that the total budget gap for 2018/19 comprises around £28.1m of portfolio pressures which for the most part are subject to volatility (e.g. social care demand), and could exacerbate the budget gap further.

Reform to Local Government Finance

21. Up to the point at which the General Election was called, the local government sector was working on the assumption that 2019/20 would see the implementation of 100% business rates retention, the implications of which were covered in significant detail in last year's MTFS.

22. However, as stated above, the result of the General Election and subsequent omission of the Local Government Finance Bill from the Queen's Speech on the 21st June, made it clear that there are no current plans to pursue the implementation of 100% business rates retention. Informal representations from DCLG have echoed this view and highlighted that there will be no 100% business rates retention deal by 2019/20.

23. Although the figures reported in this MTFAs are based around the principle of adopting 100% business rates retention from 2019/20, it was always acknowledged that the impact of such a process was anticipated to be fiscally neutral. i.e. the additional 50% business rates income would be exchanged pound for pound for existing funds provided to the Local Authority such as RSG and Public Health Grant.

24. For the reason set out above and given the uncertainty of any future deals around business rates retention, the overall figures remain unchanged but represent a key risk for the Authority going forward.

Assessment of the Budget Gap

25. As shown in Figure 1, 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. Further details can also be found in Appendix 2.

Revenue Support Grant

26. For 2018/19 and 2019/20, the Council will receive £52.4m and £36.9m respectively of RSG from Government, as per the terms of its multi-year settlement agreement.

Business Rates

27. Around a quarter of the Council's net expenditure is financed by the Council's 49% share of business rates collected locally.

28. As previous years' MTFS reports have covered the nuances of business rates in great detail, this year's MTFA focuses on the following key planning assumptions which affect the next 5 years. Further details can be found in **Appendix 2**.

- Multiplier Inflation;
- Growth in the business rates base;
- 2017 revaluation;
- Refunds of business rates due to successful appeals;
- Reliefs;
- Losses and costs of collection of business rates.

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

Council Tax

30. The Council set a Council Tax Requirement for 2017/18 of £182.1m based on a 1.99% increase. The Council also exercised an option provided by the Government to charge a Social Care Precept in 2017/18. The Band D equivalent council tax was £1,428.36, a 4.99% increase on the previous year (3% of which relates to the Social Care Precept).

31. 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.

32. 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. Most properties in Sheffield are in the lower Band A. A definition of Council Tax can be found in **Appendix 5**.

Council Tax base

33. The Council Tax base for 2017/18 was set at 133,743.89 Band D equivalent properties. This was an increase of 1,490 properties (1.1%) compared to the figure for 2016/17, partly due to an additional 1,543 properties, but also as a result of 699 fewer properties being entitled to the Council Tax Support Scheme (CTSS) offset by 752 properties that are entitled to discounts and exemptions.

34. The statutory date for the determination of the tax base for 2018/19 is not until early next year. However, for the purposes of the MTFAs, a review of the current position has been made based on information presently available. Further details can be found in **Appendix 2**.

- The overall number of properties;
- Number of properties eligible to discounts and exemptions (not including CTSS);
- Number of properties eligible for CTSS; and
- Estimated collection rate.

Council Tax referendum limits

35. 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 2017, 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 3% per annum (and 6% in total over 2017/18 to 2019/20) applied to Councils with social care responsibilities. Councils were required to certify that the funds raised by the additional 3% 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 2018, however it is likely that the maximum headroom for social care will again be 3% in 2018/19, and nil in 2019/20.

36. 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 2018 through growth in the current tax base.

Collection Fund Surplus

37. 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 be neither a surplus or a deficit on the Collection Fund by the end of 2017/18, hence neither a one-off benefit nor a one-off cost to the General Fund budget in 2018/19.

Specific Grant funding beyond 2017/18

38. The table below shows the main grants that the Council has taken into account when setting the 2017/18 revenue budget. As noted earlier in this report, the additional adult social care funding announced in the Spring Budget 2017 is not shown as it was announced unexpectedly 5 days after the Council approved its budget.

Figure 3 – Specific Grants

	£000
Housing Benefit Admin Subsidy Grant	2,351
Council Tax Support Admin Subsidy Grant	855
NHS Funding	12,399
CCG Better Care Income	5,000
Improved Better Care Fund	2,188
Public Health	34,235
Business Rates Top Up Grant	39,583
S31 Grant for Small Business Rate Relief	3,976
S31 Grant for Business Rate Cap 2014/15 & 2015/16	1,467
New Homes Bonus	7,029
Independent Living Fund	2,688
Adult Social Care Grant (One Off)	2,717
Total	<u>114,488</u>

39. 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 3 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

40. Based upon the latest available information, we are of the view that the Public Health grant will be reduced by 2.5% to 2.6% per year up to 2019/20, after which point it is likely to form part of the exchange of grant for an increased share of business rates.

41. There is also a risk that if a revised formula for Public Health is implemented before the ring-fence on the grant is removed, the national redistribution effect could result in circa £2m being cut from Sheffield's current allocation. We have assumed at this stage that this risk will not crystallise.

Dedicated Schools Grant (DSG)

42. During March 2016 the Government announced that it would introduce a national funding formula for schools, high needs and early years. The Government had planned to introduce this new funding formula from 2017/18, however the new system will now apply from 2018/19. The Government has launched a detailed consultation; further details and the financial impact for Sheffield are expected later in 2017.

43. Currently there are three blocks of funding: the Schools Block, the High Needs Block and the Early Years Block. As part of the National Funding Formula, funding allocations from the school block will be directly managed by the Education and Skills Funding Agency (ESFA) from 2019/20 and paid directly to schools.

44. As part of the Schools Block, from 2017/18 there is a new sub-block – 'Central Schools Block'. This contains funding for central schools' services, historic local authority spending commitments and the retained rate of the Education Services Grant (ESG). The Central Schools Block will be subject to reductions in funding over the coming years and there are specific limitations on the historic commitments, with limitations of no new commitments or increase in expenditure and an expectation from the Department for Education that this expenditure is time limited. This reduction in funding will inevitably create budget pressures for a number of council departments.

45. The People Portfolio have accounted for this reduction in grant within their budget pressures from 2018/19 and beyond.

Education Services Grant (ESG)

46. The General funding element of ESG of £500k will completely cease from September 2017.

47. The People portfolio have accounted for this cessation of the grant within the budget pressures figures for 2018/19.

Independent Living Fund (ILF)

48. 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.

49. After initial concerns of large scale funding reductions, the Department for Communities & Local Government (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.

Funding for adult social care

50. As stated in the 2017/18 revenue budget report, £10.3m of so-called additional funding has made available to the Council, namely:
- Adult Social Care precept (£5.4m);
 - Adult Social Care Support Grant (one-off for 2017/18 only) (£2.7m), and;
 - Improved BCF grant (£2.2m).
51. As stated in the Council Tax section of this report (paragraph 35), there is a limit to the percentage by which local authorities with social care responsibilities can raise council tax. It is likely that the maximum headroom for social care will again be 3% in 2018/19, and nil in 2019/20.
52. The Council will lose the ASC Support Grant of £2.7m in 2018/19 as it has only been provided for 2017/18.
53. The Improved BCF is expected to increase by £10.4m in 2018/19 and by £9.3m in 2019/20. These increases have been factored into the calculation of the forecast corporate budget gap, as illustrated in **Appendix 1**.
54. However, the Council faces an immediate challenge of managing the combined impact of £22.8m of RSG cuts and around £19m of social care cost pressures – i.e. £41.8m in total – with only £10.3m of additional ASC funding (of which £2.7m is temporary) and no additional funding for children’s social care. The challenge is compounded over the medium term, with a significant cumulative gap between social care cost pressures and resource levels by 2022/23.
55. The extra ASC funding announced in Spring Budget 2017 (five days after the Council’s 2017/18 revenue budget was approved) may help to alleviate these pressures to a certain extent, however the Council is required to pool this extra funding into the Better Care Fund and to agree how it is spent with the Clinical Commissioning Group. A separate paper prepared by the Director of Adult Social Services on the Council’s approach to using these funds to assist in the transformation of social care services will be taken to Cabinet for approval in July 2017.

Forecast revenue expenditure

56. The Council set a net revenue budget for 2017/18 of around £395.6m. 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 2017/18, there are a number of potentially significant additions and reductions to annual expenditure in future years:

- Local Government Pensions costs: following the triennial review of the South Yorkshire Local Government Pension Scheme (LGPS) in the December 2016 and confirmation in March 2017, the Council is confident that impacts of the assessment over the three years to 2019/20 have been captured during the 2017/18 budget process.
- However, it must be stressed that these revaluations of the fund have been historically volatile, due in no small part to the underlying assumptions linking the fund's future performance to the potential performance of the financial markets.
- Given the inherent uncertainty around the financial markets and potential impact of Brexit upon the fund's investments, there is a risk of increased pension charges in future years. This is reflected in the additional budget requirement forecast in 2020/21 of £5m, as shown in **Appendix 1** of this report.
- This likely increase in costs will be managed in some part by way of an early payment of the deficit recovery contribution during 2019/20, 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 via a collective agreement with Trade Unions. This agreement will expire in March 2018. The estimate of circa £19m of pay and reward costs included in this MTFAs reflects the overall funding envelope which the Council believes is affordable given its current financial pressures.
- Preliminary discussions with Trade Unions began during 2016/17 and continue to pursue options to secure a new pay deal for staff going forward. It is worth noting that the profile of costs may alter over the period of the MTFAs depending on the pay strategy to be implemented.
- 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 £1.0m 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, taking the total cost in 2018-19 to £79m. It does not include any additional costs arising from possible delays to the programme arising from street trees. 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** 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 2018/19.
- 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. The Council is currently negotiating further savings for 2017/18 onwards. These savings will help to mitigate future cost pressures within the contract.
- Impact of emerging pressures in 2017/18: there will be difficulties associated not only with delivering some of the savings approved in the 2017/18 budget but also in mitigating social care pressures due to demand and other factors. In particular there were unresolved social care pressures of £13m in 2016/17, with these pressures forecast to increase to £20m in 2017/18, and a further £21m of social care pressures anticipated in 2018/19. For the purposes of the MTFA forecast, it has been assumed that there will not be any unresolved pressures from 2017/18 or, if there are, these will be dealt with as part of the approach to managing pressures. However it should be stressed that these pressures are putting future budgets under great strain.
- In terms of portfolio cost / demand pressures, these amounted to approximately £27m in the 2017/18 budget and were offset by savings of an equivalent figure. The majority of the pressures in 2017/18 related to adult social care costs. The adult social care costs are likely to feature prominently in the review of potential pressures in 2018/19, alongside children's social care pressures.
- The level of general pressures for 2017/18 included a provision for staff pay awards of 1%, amounting to approximately £2m. Meetings between local government representatives and trade unions are currently underway to determine the proposal for pay awards in future years (see pay & reward strategy section above).

Approach to balancing the budget

57. 2018/19 is the eighth 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 £15.4m. 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.

58. Consequently for 2018/19 we will continue with the approach initiated for 2017/18 business planning, in other words moving 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 refreshing a four-year programme of transformative strategic changes in individual services intended to release sufficient savings to enable our budget to be balanced. We will update this MTFA later in the year as needed to reflect the revised strategic programme. As part of this process, we are seeking to focus activities on the Council's key priorities of economic growth, prevention and making effective use of our resources. 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

59. The Medium Term Financial Analysis 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.

60. The Executive Director of Resources has reviewed the position relating to Reserves and has produced a Reserves Strategy as part of the 2017/18 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 2018/19

61. 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. Therefore for budgetary purposes, the Capital Programme is kept separate to the General Fund revenue budget, hence any proposed changes to the Capital Programme are not expected to have any significant impact on the MTFA. The next update to the Capital Programme will be presented to Cabinet in February 2018.

Housing Revenue Account

62. The Housing Revenue Account (HRA) is the statutory financial account of the Local Authority as landlord. The Council owns approximately 39,900 homes that are home to around 46,400 people as tenants. In addition, 2,437 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.

63. 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 MTFA. The next update to the HRA Business Plan will be presented alongside the HRA revenue budget for 2018/19 to Cabinet in January 2018.

Implications of this Report

Financial & Commercial Implications

64. 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

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

Equal Opportunities Implications

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

Alternative Options Considered

67. A number of alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members. The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to which funding is put within the Revenue Budget and the Capital Programme.

Dave Phillips
Head of Strategic Finance
03 July 2017

Appendix 1 – Forecast Revenue Position 2018/19 to 2022/23

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
<u>Grant variations:</u>					
RSG					
Reductions in RSG	15.4	15.5	0.0	0.0	0.0
Re: Business rates					
Top-up grant - inflation	-1.0	0.0	0.0	0.0	0.0
<u>Other specific grants</u>					
Improved BCF	-10.4	-9.3	0.0	0.0	0.0
<u>Business rate income:</u>					
Inflation on business rate multiplier	-2.5	-2.0	-1.0	-1.0	-1.0
Growth in Business rate base	-1.8	-0.7	-0.7	-0.7	-0.7
<u>Council Tax income:</u>					
Growth in Council Tax Income	-4.3	-4.4	-4.5	-4.5	-4.6
Social Care Precept	-5.6	0.0	0.0	0.0	0.0
<u>Collection Fund surplus:</u>					
Fall out of 2014/15 Collection Fund surplus paid in 2015/16	0.4	0.0	0.0	0.0	0.0
<u>Expenditure variations:</u>					
Pay Strategy	2.8	4.1	4.1	4.0	4.0
Living Wage Increase (LWF)	0.2	0.4	0.8	0.8	0.8
Pensions deficit	0.0	0.0	5.0	0.0	0.0
Employers NI Contributions	0.0	0.0	0.0	0.0	0.0
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	5.7	0.4	0.5	0.5	0.5
Howden House PFI	0.1	0.0	0.1	0.0	0.1
Capital Financing costs	-1.0	0.0	-1.0	0.0	0.0
Capita contract costs	1.1	0.6	-0.6	0.0	0.0
TOTA Year on year movement, excluding service pressures	1.1	6.6	4.8	1.1	1.1
Social care pressures	21.0	17.6	15.6	11.0	11.0
Other services' pressures	7.1	2.9	3.0	2.1	2.1
add bf position	0.0	29.1	56.3	79.6	93.8
Cumulative position, excluding service pressures	29.1	56.3	79.6	93.8	108.1

Appendix 2 – Key Assumptions

Assumption / Scenario	Base Case
RSG	<p>Indicative reductions as per 2017/18 Local Govt Finance Settlement, i.e.:</p> <ul style="list-style-type: none"> • £15.4m (2018/19) • £15.5m (2019/20)
Business rates	<ul style="list-style-type: none"> • A business rates growth model has been developed by a multi-disciplinary team of Council officers 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). • This is based on the forecasts made by the Office for Budget Responsibility in March 2017 (e.g. 3.6% for 2018/19) minus 1% to account for market volatility. RPI has been 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 the policy announced by the former Chancellor in the 2015 Autumn Statement. • The VOA recently completed 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 same time, a new appeals process was introduced (“Check Challenge Appeal”). At this stage, it is not possible to evaluate the potential impact of appeals triggered by 2017 revaluation on the Council, so it is assumed in this MTFa that there will be a neutral impact. • 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. A prudent provision has been taken for the appeals and as such this should not impact on the MTFa. 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 2017/18 levels. • Neutral impact from small business rate relief and other changes announced in Chancellor’s March 2016 Budget • Reliefs, costs of collection and appeals will remain at 2017/18 levels 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 2017/18 levels (circa £44.1m) • It is assumed that losses on collection will stay at 2017/18 levels.
Council tax	<ul style="list-style-type: none"> • >500 additional band D equivalent properties per annum 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. • The tax base for 2018/19 assumed that 36,740 properties would be eligible for discounts and exemptions. At the present time, it is assumed that the number of properties claiming discounts/reliefs in

	<p>future years will remain the same. However, this figure is subject to fluctuations throughout the year, particularly as a result of student homes exemptions.</p> <ul style="list-style-type: none"> Local Council Tax Support Scheme stays the same. 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 2018/19. Core referendum trigger remains at 2%. Social care referendum trigger remains at 3% cumulative for next 2 years. In-year collection rate remains at 95.5%: 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 2018/19 assumes an in-year collection rate of 95.5% (unchanged from 2017/18). No change to reliefs & discounts Hardship Fund increases by £0.2m per annum
Collection Fund surplus/ deficit	<ul style="list-style-type: none"> Collection Fund balances in each of the next 5 years
Specific grants	<ul style="list-style-type: none"> Improved BCF grant as per 2017/18 Local Govt Finance Settlement allocations.
Pay inflation (set nationally)	1% 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 and £0.4m per annum for the 2 years to 2019/20, jumping by a further £0.8m annum after that. This is due to the rate at which LWF increases and overtakes the lower end of the SCC pay scale.
Pay strategy (set locally)	The estimate of circa £19m of pay and reward costs over the period of this MTFA reflects the overall funding envelope which the Council believes is affordable given its current financial pressures.
Employers' national insurance	After the introduction 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.
Local Government Pension Scheme (LGPS) costs	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
2017/18 & prior year budget savings	All savings approved by Full Council in March 2017 (and all 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.
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.
Capital financing costs	£1m reduction in costs anticipated in 2018/19 and £1m in 2020/21.
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.
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.

Appendix 3 – Key Financial Risks

RSG reductions	Current assumption is based on the 2017/18 Local Government Finance Settlement announced in February 2017. 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, Brexit, further austerity and/or any further localisation of business rates retention
Business rates	Key sensitivities relate to: <ul style="list-style-type: none"> • Growth forecasts (approximately 2% per annum) – a shift of 1% in these forecasts is equivalent to £1m • 2017 revaluation – local authorities have been assured that the outcome of revaluation will be fiscally neutral • 2020 reset – no indications presently available, but could have a significant impact on the Council’s top-up grant • Appeals – highly volatile; the Council seeks to mitigate fluctuations in appeals by regular monitoring and communications with VOA • 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 each year. If the trigger was reduced from 2% to 1%, this would limit the Council’s ability to generate additional income by circa £1.8m. 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 Chancellor’s Budget due in late November each year, could have a profound effect on all sources of Central Government funding, including RSG and specific grants such as Public Health. The outcome of the General Election 2017, which was not known at the time of writing this report, could have a significant bearing on future spending reviews.
Pay inflation	A 1% variance in pay equates to around £1.7m. Based on recent history, public sector pay is expected to be capped at 1%; this has been used as the basis for calculating portfolios’ pay pressures. The corporate budget gap takes account of a potential increase over and above the 1% threshold (see pay and reward strategy section of the main body of the report for further details).
2017/18 budget savings	Any risk of non-achievement of agreed savings in the 2017/18 budget will be reported in monthly budget monitoring reports. Portfolios will be expected to find mitigating savings.

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 2017/18, and the further 2 years of cuts announced in the Chancellor's 2016 Summer Budget.
- As at the 31 March 2017 the balance of General Fund reserves was £135.5m. 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 £9.7m the aforementioned £135.5m is set aside as earmarked reserves for future liabilities. The figures in the table below are not anticipated to change but are still provisional pending the outcome of the financial accounts audit.
- The table shows that during 2017/18 total reserves levels are planned to increase by £4.6m. This is primarily as a result of the planned repayment of the temporary borrowing from reserves used to make the early pension deficit payment during 2016/17 for the periods 2017/18 to 2019/20. This early payment delivered significant savings.

Summary of Non-Earmarked & Earmarked Reserves at 31 March 2017 & Estimate of balance at 31 March 2018

Description	Balance at 31/03/17 £000	Movement in 2017/18 £000	Balance at 31/03/18 £000
Non-earmarked Reserves			
General Fund Reserve	9,691	2,913	12,604
	9,691	2,913	12,604
Earmarked Reserves			
Invest to Save Post 2015	1,482	(1,321)	161
PFI Reserve	(349)	(1,079)	(1,428)
Highways PFI Reserve	15,231	(1,240)	13,991
Total PFI Reserve	14,882	(2,319)	12,563
Major Sporting Facilities	41,034	(11,165)	29,869
New Homes Bonus	11,567	(3,325)	8,242
Insurance Fund Reserve	11,102	(1,000)	10,102
Public Health	1,032	0	1,032
Other earmarked	44,734	20,854	65,589
Total Earmarked Reserves	125,833	1,725	127,557
Total Revenue Reserves	135,524	4,638	140,161

* 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 £9.7m at 31 March 2017, representing only 2.4% of net revenue expenditure.
- 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 2.4% net revenue budget has fallen below the minimum prudent level recommended by the Executive Director of Resources, mainly as a result of the £2.3m overspend in 2016/17. The Executive Director will make the recommendation to Cabinet in June 2017, as Statutory Finance Officer (s151 Officer), that the reserve is returned to the minimum recommended level of £12.6m, approximately 3% of net revenue expenditure, during 2017/18. This recommendation is reflected in the table above.

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 unaudited 2016/17 Statement of Accounts, Usable Reserves Note 29 in the following link <http://www.sheffield.gov.uk/home/your-city-council/statement-accounts>

Appendix 5 – Glossary of Terms

Term	Definition
Abbreviations	The symbol ‘k’ following a figure represents £thousand. The symbol ‘m’ following a figure represents £million. 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. 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. 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

Resource Pool (CRP)	capital receipts from land sales.
Council Tax	<p>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.</p> <p>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.</p>
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-Domestic Rates	These are often referred to as Business Rates, and are a levy on business properties based on a national rate in the pound applied

(NDR)	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.
Localisation	This term refers to the implementation of 100% business rates retention, which is by far the most significant reform to local government finance during the period of this MTFA. From 2020, it is assumed that the 50% central share of business rates currently retained by central government will be transferred to local government.
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 Government Grants	These are designed to aid particular services and may be 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	<p>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.</p> <p>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: <i>"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)."</i></p>
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.