# Revenue Budget & Capital Programme Monitoring
# As at 30th September 2020

**Report author:** Paul Schofield, Head of Accounting and Infrastructure

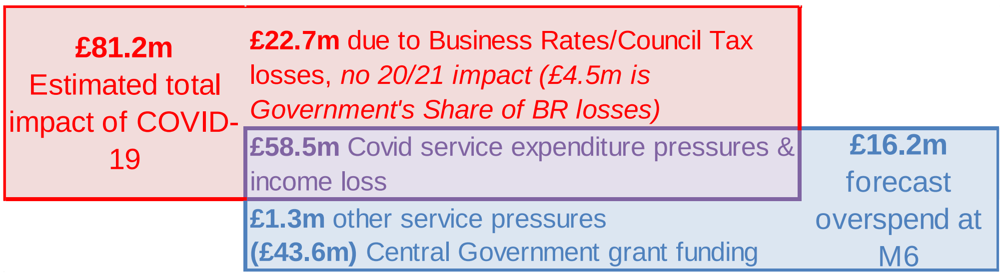
## Purpose of the Report

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

## Summary

2. The Council's revenue budget is currently forecast to be overspent by £16.2m. This is an improvement of £7.2m on the Month 2 forecast as a result of the confirmation of £10m of additional government funding. Underlying cost and income pressures have increased by nearly £3m.

3. Most of the forecasted pressure on revenue budgets for this year is due to the impact of the coronavirus on Sheffield. The Council has estimated that the overall financial cost of issues relating to the COVID-19 pandemic will be upwards of £81m, an increase of £3.6m on the Month 2 position. This has and will continue to change as the longer-term effects of the virus are better understood, and, the measures to restrict the spread of the virus change. The Medium Term Financial Analysis presented to Cabinet in October emphasised the additional uncertainty which the Covid-19 pandemic is creating for all types of organisation in their financial planning. The graphic below reconciles between the estimated gross pressure (also reported back to Ministry of Homes Communities and Local Government) and the impact on revenue budgets in 20/21.




## Response to the position

4. Sheffield is not alone in facing additional financial pressures caused by the COVID pandemic, and councils nationwide are struggling to cope with the additional pressures. The Council is taking the following actions to manage the position and mitigate the financial pressures:

- Monitoring and controlling the immediate financial impacts of the crisis
- Reviewing the delivery of its current agreed savings programme to minimise the delays to implementation caused by COVID
- Reviewing emerging non COVID-related financial pressures to reduce or eliminate them where possible
- Learning lessons from the ways of working adopted during the pandemic, including actions that can be taken jointly with other key partners such as Sheffield CCG and Sheffield City Trust, to identify improvements that maintain service levels to the public whilst potentially reducing costs
- Re-working its Medium Term Financial Analysis, including identifying any reserves that can be judiciously released to temporarily support the financial position. The latest assessment is that the Council has a budget gap approaching £40m next year. This gap is clearly not sustainable over the medium term. Ensuring ongoing viability will have to involve the prioritisation of resources, identification of additional savings, demand management controls and the effective and prudent utilisation of the Council's reserves Consequently we will need further financial support from Central Government if the Council's medium term financial position is to be sustainable. Without this Government support we will move in time to the position where we cannot set a sustainable budget
- Lobbying Central Government for further support to recognise the short and longer term impacts of the pandemic, and the role the Council can play in regenerating the economy

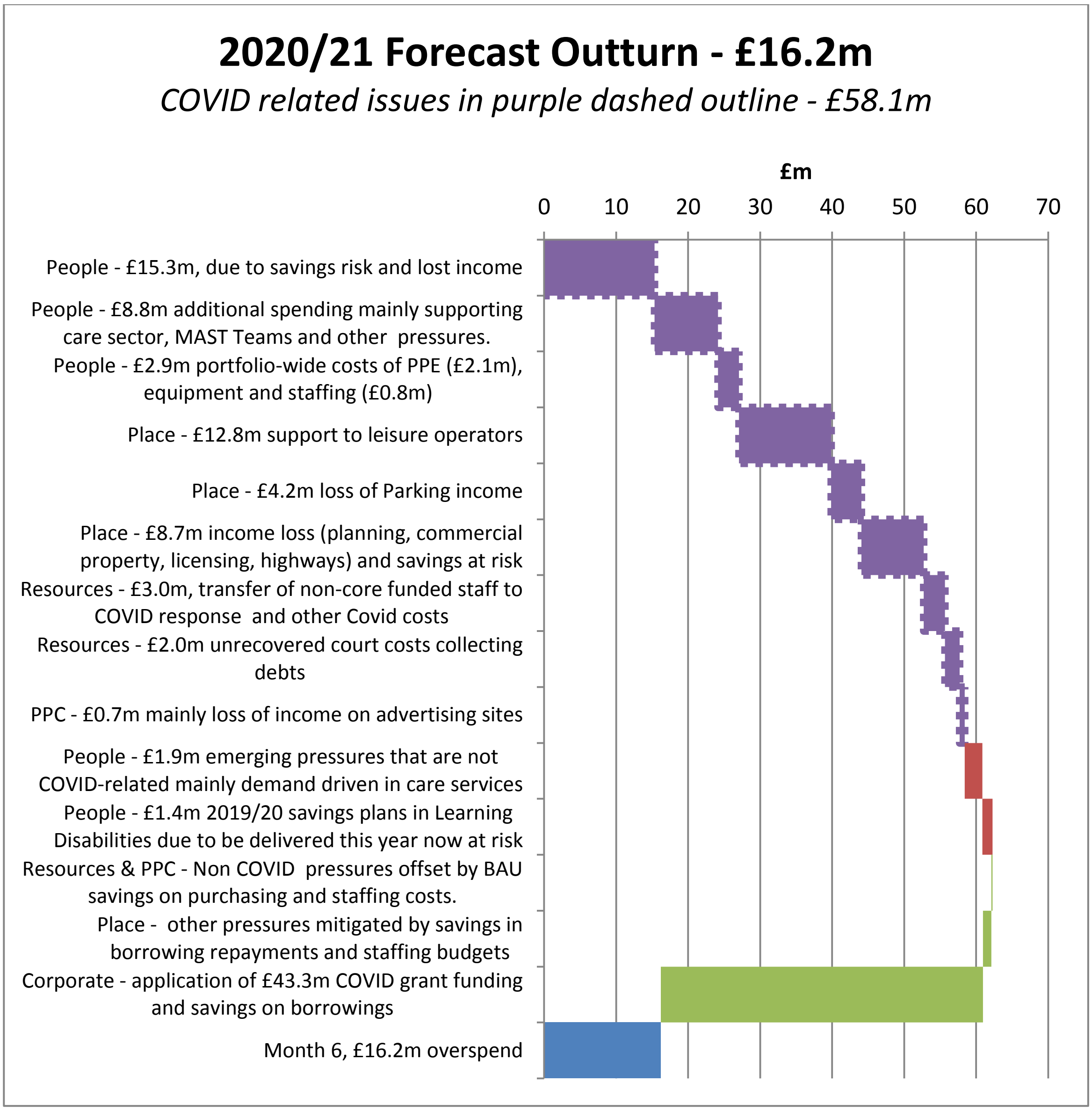
5. The Council does welcome the additional revenue funding announced so far by the Government to manage the financial pressures it and other local authorities face, though, as above, it must be emphasised that more financial support is needed to support the sector through the immediate crisis and the medium term.

6. Thus, the Council is planning the transformative changes that are needed to re-balance its financial position and protect services in the medium term. This process will be challenging however, and the Council is also keen to act as a catalyst to regenerate the economy of the city and the wider region. To fulfil fully this role, and to maintain a sustainable financial position in the medium term, the Council will need significant further Central Government funding.

7. In summary the Council is confident that, even though it has recently moved to Tier 3 Covid Alert Level, it can manage the financial pressures emerging from the crisis this year.

## Detailed position

8. The graph below summarises the main movements toward this forecast outturn from an initially balanced budget with comments on significant issues.




## Position by Portfolio

9. The below table summarises the outturn position by portfolio at Month 6. Reasons for the variance to budget for the full year are given in the waterfall chart above.

| Portfolio | Month 6 Forecast Outturn | Full Year Budget | Forecast Variance | Month 2 Forecast Variance | Change From Month 2 to Month 6 |
|---|---|---|---|---|---|
| People | 305,344 | 274,397 | 30,946 | 28,132 | 2,815 |
| Place | 225,634 | 201,122 | 24,512 | 22,613 | 1,899 |
| Policy, Performance & Communications | 3,236 | 2,953 | 283 | 483 | (200) |
| Resources | 8,050 | 2,821 | 5,229 | 5,796 | (567) |
| Corporate | (526,062) | (481,294) | (44,768) | (33,624) | (11,144) |
| Grand Total | 16,203 | 0 | 16,203 | 23,400 | (7,197) |

The main changes from Month 2 to Month 6 forecast are:

- People – increased demand pressures in both Children and Adult Social Care offset by contributions from the local NHS Commissioning Group
- Place – additional £1.6m cost to fund the re-opening of Ponds Forge swimming centre. Reassessment of impact of Covid-19 on income and costs offset by non Covid related savings on staffing budgets across all services.
- Resources and PPC - £0.2m of savings on council wide purchasing contracts plus staffing savings from vacancy management
- Corporate – further receipt of central government funding to mitigate the impact of the Covid-19 pandemic and anticipated savings on borrowing in part due to slippage in the capital programme

## Dedicated Schools Grant (DSG)

10. At Month 6, the Council is forecasting a £0.9m overspend on DSG budgets. The key reasons for this overspend are savings undeliverable due to COVID lockdown of £0.2m, £0.2m staffing pressure within MAST teams due to demand in children's services and £0.3m pressure caused by pay award in excess of budget assumptions.

## Public Health

11. Public Health services are funded by Public Health Grant – any variances to budgeted expenditure will be managed by adjusting the drawdown of grant income to match, therefore Public Health variances will be nil in terms of net expenditure and invisible within the above reported position. The Public Health reserve will be utilised in case of any overspend at year end – there is forecast to be no General Fund impact this year. This table demonstrates the variances to budget before the application of grant income.

| | | Month 6 | | Month 2 | Change |
|---|---|---|---|---|---|
| Public Health | Forecast Outturn | Full Year Budget | Forecast Variance | Forecast Variance | From Month 2 to Month 6 |
| People | 27773 | 28022 | (249) | 159 | (408) |
| Place | 2827 | 2884 | (57) | 56 | (113) |
| Director of Public Health | 1878 | 1921 | (43) | 30 | (73) |
| Total | 32,478 | 32,827 | (349) | 245 | (594) |

12. The key reason for this position is the overall reduction in staffing costs in Drug and Alcohol Coordination Teams and Public Health Staffing due to COVID-19 lockdown.

## Housing Revenue Account

13. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme of £23.1m. As at Month 6 the account is forecasting a £3.6m adverse variance from this budgeted position.

| Housing Revenue Account (excl. Community Heating ) | | | | | |
|---|---|---|---|---|---|
| | | Month 6 | | Month 2 | Change |
| | Forecast Outturn | Full Year Budget | Forecast Variance | Forecast Variance | From Month 2 to Month 6 |
| Net Income - Dwellings | (139,950) | (142,801) | 2,851 | 4,090 | (1,240) |
| Other Income | (6,249) | (6,217) | (32) | (50) | 18 |
| Tenant Services incl. Repairs & Maintenance | 89,646 | 88,843 | 804 | 536 | 267 |
| Depreciation | 23,935 | 23,935 | 0 | (0) | 0 |
| Interest on borrowing | 13,133 | 13,175 | (41) | (42) | 0 |
| Contribution to Capital Programme | 19,484 | 23,065 | (3,581) | (4,535) | 954 |
| Total | (0) | 0 | (0) | (0) | 0 |

14. The main reason for this variance is anticipated disruption to rental income due to bad debt following Lockdown. This position is fluctuating and being closely monitored.

15. There is also a variance on the community heating account of £90k. The account is managed to balance over the near term.

## Collection Fund

16. As at the end of September, the local share of the Collection Fund income stream is forecasting an overall in-year deficit of £22.7m, made up of a £18.2m deficit on Council Tax and a £4.5m deficit on Business Rates. This position is discussed in more detail within **Appendix 1.** Due to Collection Fund accounting regulations, this deficit will not impact on 2020/21 and will be fed into the budget process for 2021/22 and beyond.

## Capital Summary

17. The approved capital programme budget for 2020/21 at 30th September 2020 was £222.3m. The overall outturn of expenditure against this approved budget is forecast to be £167.4m, representing a variance of £54.9m which has increased by £44m from Month 2. The programme has been severely disrupted by the lockdown measures taken to stop the spread. Further monitoring of the Capital Programme is reported in **Appendix 2**.

## Treasury Management Review

18. The Council’s 2020/21 Revenue Budget included the Treasury Management Strategy, covering the Council’s capital finance requirements and investment strategy. **Appendix 3** to this report contains a summary of the Treasury Management position for the period to 30th September 2020, including the publication of prudential and Treasury Management indicators, and the potential implications for revenue budgets.

## Implications of this Report

### Financial implications

19. The primary purpose of this report is to provide Members with information on the City Council’s Budget Monitoring position for 2020/21, and it does not make any further recommendations that have additional financial implications for the City Council.

### Equal opportunities implications

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

### Legal implications

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

### Property implications

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

## Recommendations

23. Cabinet are asked to:
    (a) Note the updated information and management actions provided by this report and including the attached **Appendix 1** on the 2020/21 Collection Fund Account position.
    (b) In relation to the Capital Programme, note the forecast Outturn position described in **Appendix 2**.
    (c) Note the review of the Treasury Management Strategy and prudential indicators in **Appendix 3**.

### Reasons for Recommendations

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

## Alternative options considered

25. Several 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.

**Appendix 1**

# Collection Fund Monitoring
# As at 30th September 2020

## Summary

1. In 2020/21 approximately £331.2m of SCC net expenditure was forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

2. As at the end of September, the local share of the Collection Fund Income Stream is forecasting an overall in-year deficit of £22.7m made up of a £18.2m deficit on Council Tax and a £4.5m deficit on Business Rates. Due to Collection Fund accounting regulations, this deficit will not impact on 2020/21 and will be fed into the budget process for 2021/22 and beyond.

3. The initial lockdown from March 2020, subsequent restrictions and related disruption of the city's economy will have a significant impact on both revenue streams both for 2020/21 and for future years. This is both from an increase in people on Council tax Support leading to less Council Tax receivable plus a reduction in the Business Rates payable across the city.

| **Income Stream** (all figures £m) | **Budget 19/20** | **Forecast Year End Position** | **Variance** |
|---|---|---|---|
| Council Tax | (227.4) | (209.2) | 18.2 |
| Business Rates Locally Retained | (103.8) | (99.2) | 4.5 |
| **Total** | **(331.2)** | **(308.4)** | **22.7** |

## Council Tax

4. The forecast year end position for Council Tax is a deficit of £18.2m. This is primarily because of forecast increase in the number of CTS claimants of £4.5m and an increase in the bad debt provision of £13.7m. Not all these increases have materialised yet however they are forecast to be recognised as the year progresses.

5. Sheffield City Region became subject to Tier 3 restrictions at 00:01am Saturday 24th October. The likely effects of this will be revenue foregone due to taxpayers claiming Council Tax Support, and an increase in non-payments and bad debt.

6. Prior to the Tier 3 restrictions beginning, we had anticipated a large increase in Council Tax Support claims and a reduction in ability to pay following the end of the furlough scheme and a rise in unemployment. The announcement of Tier 3 restrictions adds a good deal of uncertainty. Work is ongoing to re-base our assessments of the effects of lockdown and a restricted economy, and these will be reported within the Q3 Report.

## Business Rates

7. The forecast year end position for Business Rates is a £9.0m deficit of which Sheffield's share is £4.5m. The £9.0m deficit is primarily made up of an increase in the losses on collection and the increase in the bad debt provision. Further analysis of the business rates position can be found on the following pages.

8. The enhanced Retail Relief for 2020/21 distorts the usual clarity of the below table – the 'estimated reliefs' line has a large variance, offset by additional grants below.

| **Collection Fund - Business Rates** (all figures £m) | **Budget 20/21** | **Forecast Year End Position** | **Variance** |
|---|---|---|---|
| Gross Business Rates income yield | (274.9) | (274.2) | 0.7 |
| Estimated Reliefs | 49.4 | 158.8 | 109.4 |
| Losses on collection, appeals and increase/(decrease) to bad debt provision | 11.4 | 20.3 | 9.0 |
| **Net Collectable Business Rates** | **(214.1)** | **(95.1)** | **119.1** |
| Transitional Protection Payments due from Authority | 3.3 | 3.3 | (0.0) |
| Cost of Collection allowance | 0.8 | 0.8 | 0.0 |
| Additional S31 Grants for retail relief | - | (110.0) | (110.0) |
| **Non Domestic Rating Income** | **(210.0)** | **(201.0)** | **9.1** |
| Appropriation of net business rates: | | | |
| Sheffield City Council (49.4%) | (103.8) | (99.3) | 4.5 |
| SY Fire Authority (1%) | (2.1) | (2.0) | 0.1 |
| Central Government (49.3%) | (103.5) | (99.1) | 4.4 |
| Designated Areas (0.3%) | (0.6) | (0.6) | 0.0 |
| **Total Appropriations** | **(210.0)** | **(201.0)** | **9.1** |

## Gross Rates Income Yield

9. The Gross Business Rates Income Yield is forecast to remain relatively static for the year and is currently £0.7m under budget. As part of the 2020/21 budget setting process, we built in expected Retail Relief of 50% for eligible properties. Following the Covid-19 reliefs announcement by the government which expanded both the scope and size of the retail relief for a significant number of properties, we have experienced a significant decline in expected income to be collected from these businesses. The Government recognised this, and we have subsequently received additional grants to compensate us for the loss in income.

## Conclusion

10. The above position of a £22.7m deficit rests on several assumptions – that the city escapes the worst effects of any economic downturn, and that retail and hospitality businesses are in the main able to continue trading over the year. Any eventual deficit at year end does not affect the 2020/21 General Fund outturn, because of the specific set of rules by which the Collection Fund is managed. Any deficit will influence into the General Fund budget in future years, so the effects of the likely year-end deficit will be felt over the medium term. Due to the size of the Collection Fund, a small percentage

variation in income or expenditure over the coming months will have a significant impact on the forecast outturn. Monthly monitoring of the Collection Fund position is conducted to ensure that we are fully aware of any changes and the potential budget impacts.

**Appendix 2**

## Capital Programme Position at 30th September 2020

This page is intentionally left blank