Revenue Budget & Capital Programme Monitoring
As at 30th June 2021

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Purpose of the Report

1. This report describes the Outturn budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 3.

Summary

2. The Council's Revenue Budget is currently forecast to overspend by £43.4m. £30.9m (71%) of the overspend is in adult and children's social care services. A further £10.8m (25%) arises from not delivering budgeted savings which form part of the Council's annual business planning exercise. Further detail on the causes of the overspend can be found in the chart below and paragraphs 13 - 23.

3. The headline budget overspend due to the response to Covid in 2021/22 (net of UK Government support) is estimated at £0.2m. This compares to £7.2m in 2020/21.

4. The Covid overspend in paragraph 3 excludes the potential losses from Council Tax or business rates. The potential losses in these revenue streams may appear in future years. The impact of the Covid pandemic is discussed in greater detail in the Collection Fund report at Appendix 2.

5. The Medium-Term Financial Analysis presented to Cabinet in October 2020 emphasised the additional uncertainty which the Covid-19 pandemic is creating for all types of organisations in their financial planning and that will still be present in the update this Autumn.

Future Implications

6. 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 and demands on services. The Council is taking the following actions to manage the position and mitigate the financial pressures:
   - Monitoring and controlling the 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.
- 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

7. The Council does welcome the revenue funding announced so far by the Government to manage the financial pressures it and other local authorities face. However, our initial financial projections show that more financial support is needed to support the Care sector. This is not just to counter the trailing long term effects of the pandemic (such as the projected rise in children's care from lower family disposable incomes post the cessation of the Furlough scheme), but also to deal with the national demographic pressures in adult social care which were present before the impact of the pandemic.

8. There may be a need too to cushion the potential impact of lower receipts from Council Tax and business rates created by the shifts in the national economy such as the decline in High Street retail or increased working from home which may depress office space demand.

9. The provision of further government support for 21/22 announced in December 2020 allowed the Council to balance the Budget proposal to Council for 2021/22. The latest assessment evident in this Outturn is that the Council has a budget gap in the short to medium term which is simply not sustainable. Ensuring ongoing viability will have to involve the urgent prioritisation of resources, identification of additional savings, demand management controls, consideration of alternative models for the provision of some services, 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 very quickly (i.e. in the next 15 – 30 months) to the position where we cannot set a sustainable budget because our reserves will have been exhausted.

10. Thus, the Council needs to deliver, much quicker than previously achieved, the transformative changes that are needed to rebalance its financial position and protect

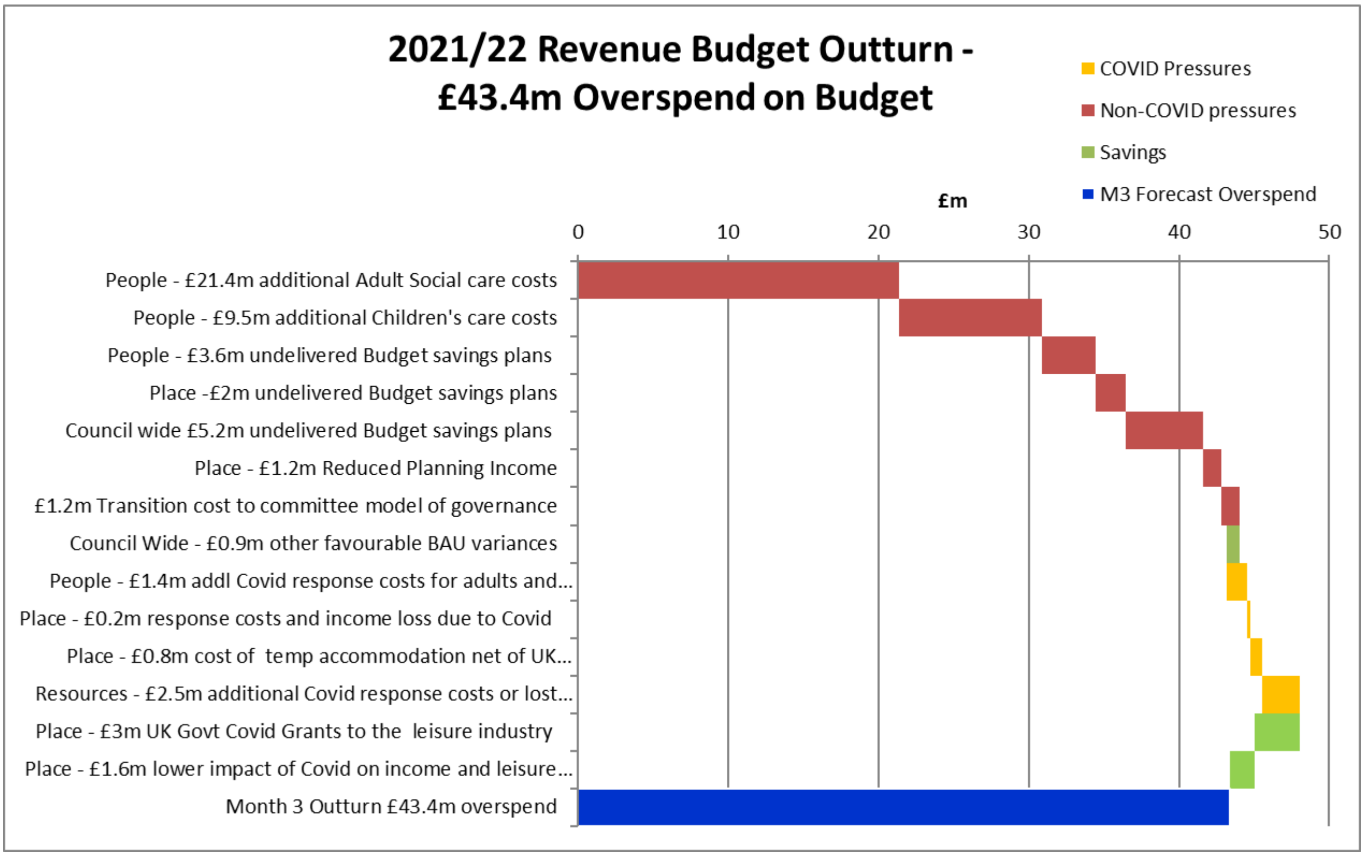
services in the medium term. This process will be challenging especially as there is a pressing need to regenerate the economy of the city and the wider region, and, restore life to pre-pandemic levels. The Council has sought to address the latter objective by launching its One Year Plan. To fulfil this role, and to maintain a sustainable financial position in the medium term, the Council will need significant further Central Government funding.

11. Furthermore, council services need to readjust quickly from the increased responsive, virtually unlimited spending which was necessary to mitigate the effects of the pandemic, to the "new normal". The transition time to effect this change currently extends beyond the availability of additional funding contributing to the forecast overspend.

12. In summary, whereas the Council withstood the immediate financial pressures created by the required response to the pandemic in 2020/21, the projected increases in care costs threaten the sustainability of the provision of Council services in the scope and quality which they are provided today.

Detailed position

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



Position by Portfolio

14. The table below summarises the forecast outturn position by portfolio at Month 3. Reasons for the variance to budget for the full year are summarised in the waterfall chart above.

	Month 3		
Portfolio	Outturn	Full Year Budget	Variance
People	308,477	272,303	36,174
Place	140,680	142,110	(1,431)
Policy, Performance & Communications	3,048	3,076	(28)
Resources	8,838	5,338	3,500
Corporate	(417,676)	(422,827)	5,151
Grand Total	43,367	0	43,366

The main forecast variances from budget are:

- People – demand and cost pressures in social care (adults £21.4m, children £9.5m) plus £3.6m shortfall on delivering budgeted savings planned for 2021/22;
- Place – £3.9m lower than budgeted cost of Covid - £4.1m less support to the Leisure industry by using government grants rolled from last year, the reopening of venues for sport following the easing of Covid restrictions, and, £0.5m lower loss of income due to Covid across Council services. This improvement is offset by £0.8m cost of temporary accommodation for homeless and rough sleepers. Planning income is £1.2m below budget and the Council is undertaking at its own risk £0.7m of project cost to deliver the Clean Air Zone. The portfolio has a £2m shortfall in delivering budgeted savings planned for 2021/22 but offset by £1.1m vacancy management across all services;
- Resources and PPC – £2.5m Covid costs from the expected loss in recovery of debt and additional ICT costs supporting home working. Following the outcome of the referendum held in May2021, the Council is committed to delivering the new committee-based model of governance by May 2022. This complex and time-critical project will require substantial change to the decision making processes of the Council and extensive consultation. The additional resources required to undertake this work are estimated at £1.2m; and
- Corporate – the Budget contained ambitious high level plans to streamline Council processes and structure. These will not be delivered to the anticipated timescale creating a £5m overspend.

Dedicated Schools Grant (DSG)

15. At Month 3, the forecast Outturn is a £1.1m overspend on DSG budgets. There is £0.5m cost pressure in Children's Special Educational Needs (SEN) transport due to increasing demand. There is a similar sized overspend in staffing budget across the activities funded by the grant.

Public Health

16. 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 3		
Public Health	Outturn	Full Year Budget	Variance
People	27,641	27,541	100
Place	2,917	2,884	33
Director of Public Health	1,667	1,921	(254)
Total	32,225	32,346	(121)

17. The reasons for this position are a predicted overspend on the new PCS (community sexual health) contract will commence in August. This is offset by an underspend on the GP health check contract which ceased in April with no further activity planned this year (£165k), plus using UK government Covid grants to fund some staffing costs.

Housing Revenue Account (HRA)

18. The HRA income and expenditure account provides a contribution towards funding the HRA capital investment programme by reinvesting any surplus on the HRA to leave the overall position balanced.

19. For 2021/22 the budgeted contribution is £22.3m. The forecast Outturn position is a contribution of £15.6m, £6.7m lower than budget.

Housing Revenue Account (excl. Community Heating)

	Month 3		
	Outturn	Full Year Budget	Variance
Net Income - Dwellings	(143,759)	(145,013)	1,254
Other Income	(6,024)	(6,150)	126
Tenant Services incl. Repairs & Maintenance	96,618	91,238	5,379
Depreciation	24,421	24,421	0
Interest on borrowing	13,109	13,175	(65)
Contribution to Capital Programme	15,635	22,329	(6,694)
Total	(0)	0	(0)

20. There are three principal reasons for the reduced surplus.

21. Firstly, there is a forecast £4m increase in the Repairs and Maintenance Budget to recover the backlog of repairs created by the social distancing restrictions in 2020/21 which reduced the activity to emergency and statutory repairs (e.g. gas appliance servicing). The total spend will be £5.7m but this has been reduced to £4m by drawing on £1.7m from Reserves.

22. Secondly, the number of vacant properties is above budget partly due to the disruption caused by the pandemic which has restricted access for repairs before the properties can be re-let. Rental income is £1.7m below budget and, the HRA, like any other Landlord, pays the Council Tax on vacant properties which has cost a further £0.7m.

23. Finally, losses due to Bad Debts is £0.4m better than budget as the arrears built up in the pandemic have been reduced.

Collection Fund Account

24. As at the end of September, the local share of the Collection Fund income stream is forecasting an overall in-year deficit of £22.5m deficit on Business Rates. This position is discussed in more detail within **Appendix 2.** Due to Collection Fund accounting regulations, this deficit will not impact on 2021/22 and will be fed into the budget process for 2022/23 and beyond.

Capital Summary

25. The approved capital programme budget for 2021/22 at 30th June 2021 was £262.4m. The forecast outturn of expenditure against this approved budget is £257.7m, a variance of £4.7m, a relatively small variance of under 2%. The capital programme was disrupted last year by the lockdown measures taken to stop the spread of the Covid-19 virus, but this is not so this year. The reasons for deviation from budget relate to the more traditional operational problems inherent in construction activities. Further information on the Capital Programme, including variations on significant projects, is reported in **Appendix 3**.

Implications of this Report

Financial implications

26. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2020/21. There is one recommendation to approve expenditure in respect of the Place Systems Review project. The details are in Appendix 1.

Equal opportunities implications

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

Legal implications

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

Property implications

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

Recommendations

30. Co-operative Executive are asked to:

    (a) Note the updated information and management actions provided by this report and including the recommended approval of the Place Systems Review project expenditure in **Appendix 1**.

    (b) In relation to the Collection Fund Report, note the Outturn position described in **Appendix 2**.

    (c) In relation to the Capital Programme, note the Outturn position described in **Appendix 3**.

Reasons for Recommendations

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

Alternative options considered

32. 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

Approval of Place Systems Review

1. Recommendation
   To approve revenue expenditure from the Housing Revenue account of £4.38m to fund the replacement of business critical systems for Housing Services.

2. The case for investment
   OHMS is Housing Services main operational IT system. It has been identified as the Place portfolio's most significant ICT pressure. it is approaching the end of its technical life and replacing its functionality needs to be addressed urgently. The current contract to supply OHMS ends in March 2023 and OHMS will be technically unsupported. If we do not make this change now, the system may fail, preventing the Housing and Neighbourhoods Services from delivering the bulk of their services including core housing management functions e.g. collection of rents, rehousing etc. The new system should eliminate many of the current archaic back office processes e.g. manual rekeying, improves management information leading to better decision making, improved efficiency, and, opens up the potential to shift 80% of queries onto self-service, thus improving customer service and reducing staff costs.

3. The benefits
   The functionality of OHMS is replaced which enables Housing operations to continue whilst offering a substantially improved customer experience. Customers can transact with the Council more easily over the web through self-service. In turn this should reduce the HRA operating cost through requiring less resource.

4. Options
   Option 1, Do nothing, costs £9.1m capital, £4.9m revenue cost.
   Options 2 and 3 - a single solution with two phases of implementation for housing and neighbourhoods, supported by a new practice model - cost £7.6m capital and £1.75m in revenue. Options 2 and 3 are very similar except that Option 3 delivers improvements in corporate asset management modules too. For this reason, Option 3 is the preferred option.

5. Finance and Commercial Implications
   £1.751m will be spent up to March 2022, primarily on project mobilisation, production of the business case and procurement. Please see Table 1 below for an analysis of on what the money will be spent.

Procurement will be via the UK Government's Crown Commercial Services Framework: RM3821 Data and Application Solutions.

The 2021/22 Capital Programme Budget approved a provisional sum of £5m for this project funded from the HRA. This was based on a very broad assessment of the scope of the project. Since then, more detailed work has identified that the cost will be £9.4m. This requires additional funding of £4.4m. The additional funds will have to be found from HRA revenue budgets. This could be a straight pressure on the revenue budget or the capital element could be taken from the existing capital programme utilising savings against approved capital schemes or by re-profiling schemes to later years. This work is in progress as Officers explore options which will be approved through the recognised processes.

The HRA should eventually secure a payback on the project as the operational efficiencies are delivered. These savings have not yet been quantified.

Table 1

Income / Expenditure	20/21	21/22	22/23	23/24	24/25	Total
Funding HRA	-£504,800	-£1,246,200				-£1,751,000
Income Total	**-£504,800**	**-£1,246,200**				**-£1,751,000**
Application solution						
Technical / implementation costs	£78,800	£407,200				£486,000
Support costs						
SME / Backfill	£32,000	£103,000				£135,000
Corporate and change resource	£394,000	£736,000				£1,130,000
Development costs						
Expenditure Total	**£504,800**	**£1,246,200**				**£1,751,000**

6. Timescale

Milestone	IBC Date	Actual / OBC Date
Strategic Outline Case signed-off	Dec 2021	Dec 2021
Soft market testing launched	Jan 2022	Jan 2022
Outline Business Case signed-off	May 2021	May 2021
Procurement route agreed	July 2021	July 2021
Procurement commences	October 2021	October 2021
Procurement complete	March 2022	March 2022
Full Business Case signed-off	March 2022	March 2022
Commence solution build	April 2022	April 2022
Commence solution test	August 2022	August 2022
Commence solution roll-out	December 2022	December 2022
Complete phase 1 roll-out*	April 2023*	April 2023*

7. Project Governance

The full scheme will be approved through the capital programme with full Member oversight with appropriate delegated authority to officers to select and appoint delivery contractors. The project will be managed by a project board in line with standard SCC practise. Member briefings will be held as required.

Appendix 2

Collection Fund Monitoring
As at 30th June 2021

Summary

1. In 2021/22 approximately £334.5m 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 June, the local share of the Collection Fund Income Stream is forecasting a £22.5m deficit. As below, this is entirely due to the timing of the announcement to continue retail relief in a modified form into 2021/22.

3. This is an estimate that is subject to considerable uncertainty in what is an unusual year. The effects of the removal of restrictions on 19th July will take time to be known and can effect Collection Fund income via disruption to employment within the city and the growth or decline in new business.

Income Stream (all figures £m)	Budget 21/22	Forecast Year End Position	Variance
Council Tax	(235.0)	(235.0)	0.0
Business Rates Locally Retained	(99.5)	(77.1)	22.5
Total	**(334.5)**	**(312.1)**	**22.5**

Council Tax

4. The forecast year end position for Council Tax is a balanced position.

5. The Council received £5.6m of grant income from central Government for 2021/22 and has applied this grant to offset the effects of an anticipated increase in Council Tax Support (CTS) claimants and an expected decrease in collection rate. The taxation income foregone through CTS has not reached the amount anticipated in the assumptions behind the Budget (the Council is required to make an estimate of this by 15th January in the preceding financial year). This grant income is not scheduled to continue past 2021/22. As such, if Council Tax income does not recover to pre-COVID levels this year, this will cause a pressure in future budgets until the pre-COVID baseline can be restored.

6. The growth of the tax base is proceeding in line with estimates as new dwellings are constructed. Further, the Council has resumed enforcement activity relating to accounts in arrears. These factors point to Council Tax income holding up.

7. Cash collections so far in 2021/22 are also stronger than they were in 2020/21, so Council Tax income appears to be rebounding following the disruptions of the last year. It is difficult at this stage of the year to make a confident estimate of the remaining 9 months, especially given the uncertainty introduced by the failed direct debit runs in May and June.

Business Rates

8. The forecast year end position for Business Rates is a £22.5m deficit. This is caused by the announcement of a continued, modified form of Retail Discount into 2021/22 in March 2021, after the Council had approved the 2021/22 Revenue Budget. The estimate of the cost of this relief is £45.9m, of which the Council's share is £22.5m.

9. This deficit will be entirely compensated by the Government, so has no overall cash impact. But for this relief, the forecast for business rates income is a broadly balanced position.

Collection Fund - Business Rates (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Gross Business Rates income yield	(270.7)	(270.7)	0.0
Estimated Reliefs	51.0	96.9	45.9
Losses on collection, appeals and increase/(decrease) to bad debt provision	15.2	15.2	(0.0)
Net Collectable Business Rates	**(204.5)**	**(158.6)**	**45.9**
Transitional Protection Payments due from Authority	1.6	1.6	0.0
Cost of Collection allowance	0.7	0.7	(0.0)
Designated amounts	2.3	2.3	0.0
Non Domestic Rating Income	**(199.9)**	**(154.0)**	**45.9**
Allocation of net business rates *(%age share in brackets)*			
Sheffield City Council (49%)	**(97.9)**	**(75.5)**	**22.5**
SY Fire Authority (1%)	(2.0)	(1.5)	0.5
Central Government (50%)	(99.9)	(77.0)	22.9
Total Allocations	**(199.9)**	**(154.0)**	**45.9**
Share of disregarded amounts			
Sheffield City Council	**(1.6)**	**(1.6)**	**0.0**
Sheffield City Region MCA	(0.7)	(0.7)	(0.0)
Sheffield City Council NNDR Income	**(99.5)**	**(77.1)**	**22.5**

Non-Domestic Rating Income

10. The Gross Business Rates Income Yield is subject to considerable uncertainty given the progress toward full re-opening on 19th July. It will take some time before a clearer estimate emerges. During budget setting, assumptions were made about how business rates income would decline through the year (e.g. business ceasing to trade, increased claims for relief) and these assumptions appear to be broadly accurate so far.

Conclusion

11. The above position rests on several assumptions – mainly that the city's economy is able to re-open and re-bound following a difficult year. Any eventual deficit at year end does not affect the 2021/22 General Fund outturn, because of the specific regulations by which the Collection Fund is accounted for.

12. Any deficit will influence into the General Fund budget in future years, so the effects of a surplus or 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 3

Capital Programme Position at 30th June 2021

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