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

Report author: Paul Schofield, Head of Accounting and Infrastructure

Introduction

1. The purpose of this report is to inform Members of the Outturn budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 6 and the implications for the future.

   The report contains further detail at sections 7 to 10 on the position of each portfolio's Revenue Budget and the Housing Revenue Account. Further reports on the City Council's Collection Fund Account and Treasury Management position are at Appendices 1 and 2 respectively. Further detail on the position of the Capital programme is at Appendix 3.

Financial Position

2. **Forecast overspend has reduced by £6.1m to £37.2m**

   The Council's Revenue Budget is currently forecast to overspend by £37.2m. This is an improvement of £6.1m on the position at Month 3 and is driven by:

   - £3.3m of additional UK Government Covid funding;
   - Review and redirection of expenditure, and, refinement of forecasts by Council officers in response to the emerging position at Month 3 with an initial estimate of £0.5m improvement from the Recovery Plans within the People portfolio;
   - Approximately £0.5m of additional income from Markets service, Parking Services as the impact of Covid was less than anticipated in the Budget. Highways department income has also improved by £0.6m.

3. **Cost Management measures implemented to contain the overspend which is not sustainable**

   The position remains unsustainable and requires decisive action.

   The Council has instituted a series of "Cost Management Measures" to contain the overspend. These include senior manager level approval of all recruitment, and, minimising travel and other expenditure which is not related to the delivery of front line services.

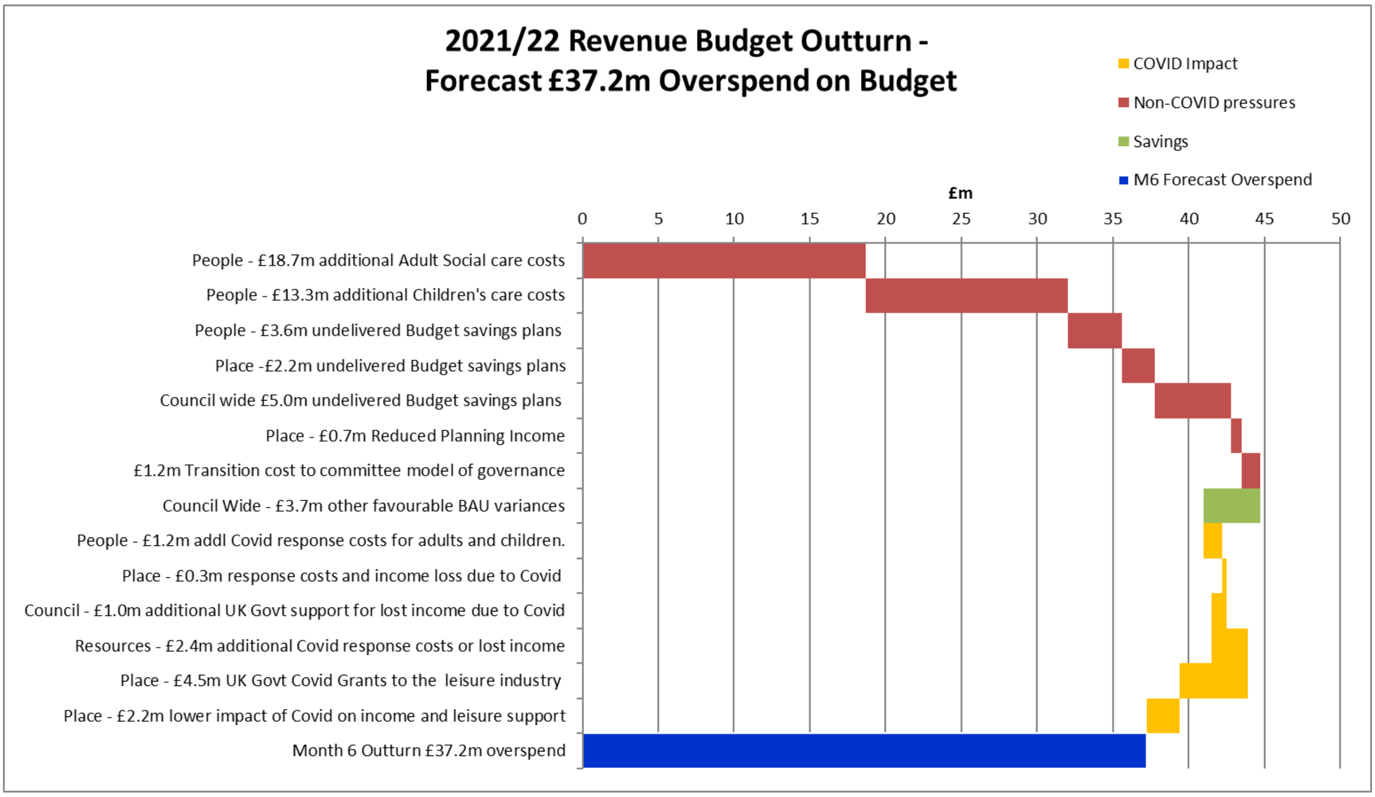
   The Adult Care and Support and Children & Families services within the People portfolio have developed and are implementing *Recovery Plans* to reduce the overspend which in those services accounts for 87% of the net overspend in the Council. In the short term this will create additional cost to provide additional resource above that engaged on business-as-usual activities to address the operational problems. Some of this activity has been funded by reprioritising expenditure from elsewhere.

4.	**The scale of the deficit requires strategic and structural change in Budgets across the Council**	The Medium-Term Financial Analysis report to Co-operative Executive in October set out the scale of the challenge. Part of this response will involve seeking additional government funding to address the pressures caused by demographic changes in society. Sheffield is not alone amongst core cities in experiencing budgetary pressures, but it does seem to be reporting a much worse position. Work is underway by benchmarking against other cities to understand if this is due to local demand factors or the way it delivers services, or a combination of both.

5. This following sections provide more detail on the position of each portfolio.

Financial Position

The graph below summarises the main movements in the Council's financial position from an initially balanced budget.



6. Council Position

Portfolio	Month 3 Outturn	Month 3 Full Year Budget	Month 3 Variance	Month 6 Forecast Variance	Change From Month 3 to Month 6
People	307,654	272,556	35,098	36,174	(1,076)
Place	138,358	143,335	(4,977)	(1,431)	(3,546)
Policy, Performance & Communications	3,038	3,076	(38)	(28)	(10)
Resources	8,892	5,524	3,368	3,500	(132)
Corporate	(420,697)	(424,491)	3,794	5,151	(1,357)
Grand Total	37,245	-	37,245	43,366	(6,121)

The main changes in the forecast variances from budget are:

- People – following a detailed review of forecasts, Adult Social Care costs were revised downwards but Children' s care costs have increased to leave the net position £1m better than Month 3. ASC has included an £0.5m anticipated improvement from the actions within its Recovery Plan
- Place – a further improvement of £3.5m reflecting £1.5m additional Covid grants to the Leisure industry, £0.8m grant from UK Government to support temporary accommodation for the homeless and an improving outlook for fees and charges income particularly in the Markets, Parking and Highways services (£1.0mB); and
- Corporate – forecast £1m additional support from UK Government to compensate for lost sales, fees and charges due to the Covid pandemic. A review of the Council's borrowing requirement has led to an estimated saving of £207k following the declaration of some £40m of slippage in the delivery of the capital programme which is discussed further in Appendix 3.

7. Dedicated Schools Grant

The forecast is a £2.5m overspend on DSG. This is £1.4m worse than the M3 position due to demand pressures from pupils with Special Educational Needs provision. The costs occur both in the provision of places and transport to schools. A review is underway to seek more cost-effective ways of providing this support.

8. Public Health

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.

Public Health	Outturn	Month 6 Full Year Budget	Variance	Month 3 Forecast Variance	Change From Month 3 to Month 6
People	27,907	28,085	(178)	100	(278)
Place	3,253	3,261	(8)	33	(41)
Director of Public Health	1,827	1,939	(112)	(254)	142
Total	32,987	33,285	(298)	(121)	(177)

The reasons for this position are a predicted overspend on the new PCS (community sexual health) contract which commenced 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, plus using UK government Covid grants to fund some staffing costs.

9. **Housing Revenue Account**

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.

For 2021/22 the budgeted contribution is £20.6m. The forecast Outturn position is a contribution of £14.3m, £6.2m lower than budget, and £0.4m lower than the Month 3 forecast.

Housing Revenue Account (excl. Community Heating)

	Outturn	Month 6 Full Year Budget	Variance	Month 3 Forecast Variance	Change From Month 3 to Month 6
Net Income - Dwellings	(143,608)	(145,013)	1,404	1,254	151
Other Income	(6,149)	(6,150)	1	126	(125)
Tenant Services incl. Repairs & Maintenance	97,891	92,938	4,953	5,379	(427)
Depreciation	24,421	24,421	0	0	0
Interest on borrowing	13,109	13,175	(65)	(65)	0
Contribution to Capital Programme	14,336	20,629	(6,293)	(6,694)	401
Total	(0)	0	(0)	(0)	(0)

The cause of the variance is little changed from that reported in Month 3. Disruption from the Covid pandemic has created a backlog of home repairs due to social distancing measures restricting access for all but essential repairs and inspection e.g. gas compliance checks, and, reduced rental income as the number of unlet houses has increased due to restricted access.

10	**Collection Fund Account**	This is showing a satisfactory position. As at the end of September, the local share of the Collection Fund income stream is forecasting an overall in-year deficit of £19.6m deficit. There is a small projected surplus of £3.0m on Council Tax, and, a deficit of £22.6m on Business Rates due to Collection Fund accounting regulations in respect of the Retail and Nursery discount scheme to support businesses during the pandemic. The Council will receive grant funding to compensate for this deficit. The overall Collection Fund position will have no impact on the Council's 2021/22 financial position and will be accounted for within future years' budgets. This position is discussed in more detail within Appendix 1**.**
11	**Capital Summary**	The approved capital programme budget for 2021/22 at 30th September 2021 was £279.9m. The forecast outturn of expenditure against this approved budget is £235.4m, a variance of £44.5m. This is a significant movement of £39.8m on the Month 3 position which forecast a shortfall of £4.7m. £22m of the change is in the Heart of the City and Housing Investment programmes. Further information on the Capital Programme, including variations on significant projects, is reported in **Appendix 3**.
12	**Financial implications**	The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2020/21.
13	**Equality Opportunities Implications**	There are no specific equal opportunity implications arising from the recommendations in this report.
14	**Legal Implications**	There are no specific legal implications arising from the recommendations in this report.

15.	**Property Implications**	There are no other property implications arising from the recommendations in this report this report.

16.

Recommendations

It is recommended that Members

1. Note the updated information on the latest Outturn position and management actions provided by this report;
2. In relation to the Collection Fund Report, note the Outturn position described in **Appendix 1**;
3. Note the Treasury Management Position in **Appendix 2** in particular the Section 151 officer's confirmation of compliance with the Treasury Management Strategy and Annual Investment Strategy; and
4. In relation to the Capital Programme, note the Outturn position described in **Appendix 3.**

Collection Fund Monitoring
As at 30th September 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 September, the local share of the Collection Fund Income Stream is forecasting a £19.6m deficit. As below, this is mainly due to the timing of the announcement to continue retail relief in a modified form into 2021/22 and a countervailing improvement within Council Tax.
3. The Council will be fully compensated for the deficit relating to the business rate discount for 2021/22, so while the deficit is an alarmingly large number, it is important to note that there is no overall cash impact.
4. This deficit position will not affect this year's outturn position, due to the specific set of rules governing the accounting of the Collection Fund. The deficit must be reconciled within future General Fund budgets and cannot impact on the wider General Fund position for this year.
5. This is an estimate that is subject to considerable uncertainty in what continues to be an unusual year. It is still too soon to make any reliable estimates of the recovery of the city's economy against the national backdrop of labour shortages and supply chain problems. It is not yet clear how the economic and social disruption due to the COVID pandemic will affect the ability of residents to pay Council Tax liabilities. The assessment of the year end position must be on a cautious footing.

Income Stream (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Council Tax	(235.0)	(237.9)	(3.0)
Business Rates Locally Retained	(99.5)	(77.0)	22.5
Total	**(334.5)**	**(314.9)**	**19.6**

Council Tax

6. The forecast year end position for Council Tax is a £3.0m surplus. This is due to 3 main factors.
7. The gross Council Tax yield for the city is currently £1.5m under the estimated baseline. This is due to the number of dwellings in the city not yet reaching the estimated mid-year point, and against a backdrop of labour and material shortages. Normally, the number of dwellings in the city increases steadily

throughout the year, so it is hoped that this figure remedies over the remaining months.

8. The number of Council Tax Support claimants has not yet risen to the estimated level, creating an estimated £6.9m surplus against budget. The reasons for this will be complex. The original estimate of the 2021/22 tax base was made in January 2021, in a fresh period of lockdown restrictions before the COVID vaccine rollout had begun in earnest and there was much social and economic uncertainty. Therefore, the level of claimants was expected to continue to rise through the year. It has not done this and appears steady, creating an improvement on budget.

9. There is a £2.2m increase in the estimated requirement to provide for bad debt. Payment behaviour and collection rates have not yet recovered to the pre-COVID levels at this mid-year stage, though have improved slightly over last year's. It is therefore expected that the Council will need to create more provision to protect itself from bad debt, and this figure will be under close review through the rest of the year.

Collection Fund - Council Tax (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Gross Council Tax income yield for 2021/22	(398.7)	(397.2)	1.5
Revenue foregone due to Council Tax Support	50.1	43.2	(6.9)
Other discounts and exemptions	58.6	58.6	0.0
Net Collectible Council Tax	**(290.0)**	**(295.4)**	**(5.4)**
Losses on collection and increase/(decrease) to bad debt provision	14.5	16.7	2.2
Council Tax Income	**(275.5)**	**(278.7)**	**(3.1)**
Allocation of Council Tax Income *(%age share in brackets)*			
Sheffield City Council ***(85.5%)***	**(235.0)**	**(237.8)**	(2.8)
South Yorkshire Police and Crime Commissioner *(10.7%)*	**(29.4)**	**(29.7)**	(0.3)
South Yorkshire Fire & Rescue *(3.8%)*	**(10.5)**	**(10.6)**	(0.1)
Transfers to Precepting Parishes	**(0.6)**	**(0.6)**	-
Total Allocations	**(275.5)**	**(278.7)**	**(3.1)**

10. In setting the Budget for 2021/22, the Council used the one-off Council Tax Support (CTS) grant funding to compensate for an estimated reduction in the Band D tax base within the city. In time, this reduction has been more than adequate to protect the Council's Budget from any pressures relating to Council Tax. However, this remains a risk for future years' budgets in that payment behaviour and tax base must revert to pre-COVID levels to offset the removal of the CTS grant and avoid a deficit position or a worsening of the overall medium-term revenue position.

Business Rates

11. The forecast year end position for Business Rates is a £22.5m deficit.

12. This deficit is driven by the function of the 2021/22 version of the retail and nursery discount, which has an estimated value of £45.9m across the Fund. The Council will receive grant funding to compensate for this relief, so this deficit is of no overall cash impact. Aside from this, the estimates made within the Budget appear to be accurate and the Fund would be at a balanced position.

Collection Fund - Business Rates (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Gross Business Rates income yield for 2021/22	(270.7)	(269.5)	1.3
Estimated Reliefs	51.0	95.8	44.7
Losses on collection, appeals and increase/(decrease) to bad debt provision	15.2	15.2	0.0
Net Collectable Business Rates	**(204.5)**	**(158.5)**	**46.0**
Transitional Protection Payments due from Authority	1.6	1.6	0.0
Cost of Collection allowance	0.7	0.7	-
Designated amounts	2.3	2.3	(0.0)
Non Domestic Rating Income	**(199.9)**	**(153.9)**	**46.0**
Allocation of net business rates *(%age share in brackets)*			
Sheffield City Council (49%)	**(97.9)**	**(75.4)**	**22.5**
SY Fire Authority (1%)	(2.0)	(1.5)	0.5
Central Government (50%)	(99.9)	(76.9)	23.0
Total Allocations	**(199.9)**	**(153.9)**	**46.0**
Share of disregarded amounts			
Sheffield City Council	**(1.6)**	**(1.6)**	**0.0**
South Yorkshire Mayoral Combined Authority	(0.7)	(0.7)	(0.0)
Sheffield City Council NNDR Income	**(99.5)**	**(77.0)**	**22.5**

Non-Domestic Rating Income

13. The Gross Business Rates Income Yield is subject to considerable uncertainty given the backdrop of post-COVID recovery, supply chain issues and labour shortages. 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

14. The above position rests on a number of assumptions – mainly that the city's economy can continue 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.

15. 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.